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BEST'S REVIEW®

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AM BEST'S MONTHLY INSURANCE MAGAZINE

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AM BEST'S MONTHLY INSURANCE MAGAZINE

Who Was Prepared For This?

With civil unrest on the rise globally, insurers are rethinking how they underwrite riots and civil commotion and looking closely at aggregation risk. Record losses this year in the U.S. and last year in Chile illustrate the growing severity of events. **Page 32**

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

Season of Discontent

Riots that erupted across the country after the death of George Floyd raise new questions and concerns for underwriters. *Best's Review* also looks at workers' comp presumption rules and coverage for COVID claims.

While the U.S. watches and waits for the results of the 2020 Presidential election, many in the industry are counting the days until the end of this year's hurricane season.

After having blown through the alphabetical list of 21 Atlantic tropical storm names for 2020, the naming protocol has moved on to the Greek alphabet, starting with subtropical storm Alpha in mid-September. In 2005, the first time the Greek alphabet was used, the storms got six letters in with Zeta. This year could pass that mark.

Property insurers have been tested this year on several fronts—wildfires have burned millions of acres in California, insured losses from the hurricanes are in the billions and the pandemic has resulted in a wave of business interruption claims.

The riots that broke out in cities across the United States after the death of George Floyd now raise new questions and concerns for underwriters.

In "Who Was Prepared for This?" *Best's Review* examines the civil unrest in the United States over the past several months and the trend globally.

November is Property Insurance Awareness Month and Workers' Comp Awareness Month. *Best's Review* presents the ranking of the top homeowners multiple peril writers in this issue and examines developments in the broader commercial property market. Workers' compensation, the largest commercial insurance line of business, is also a focus.

In workers' comp, insurers face an evolving regulatory landscape over the question of whether workers with COVID-19—an infectious disease—can file a workers' comp claim in certain cases.

"On the Front Lines" looks at the new rules that have been going into effect in some states and what it means for insurers.

In the life sector, insurers have announced some significant M&A deals in the past few months. Private equity firm KKR & Co. agreed to buy retirement and life insurance company Global Atlantic Financial Group; Empower Retirement said it will acquire the retirement plan business of Massachusetts Mutual, and MetLife agreed to acquire Versant Health.

"To Buy or to Sell?" examines these initiatives and the reasons behind them.

Property/casualty reserving is one of the top considerations for boards and audit committees. In "Effective Governance," senior, seasoned reserving professionals offer a "how-to" guide for directors.

Coming up in next month's *Best's Review*, look for The Entrepreneurial Agent/Broker. In our special three-part series, AMBestTV and *Best's Review* will interview top industry leaders. These interviews will also air on AMBestTV beginning on Nov. 16.

Finally, around this time of the year AM Best publishes its *Guide to Understanding the Insurance Industry*. The 2020 edition of the guide is now available on Amazon. The 64-page book contains all new statistical information and articles on the people and issues that help shape today's insurance industry.

Patricia Vowinkel
Executive Editor
patricia.vowinkel@ambest.com

The Question:

2020 has been an eventful year for the insurance industry. What are some of the lessons learned?

Email your answer to *bestreviewcomment@ambest.com*.
Reader responses will be published in a future issue.

ON THE COVER

Who Was Prepared For This?

With civil unrest on the rise globally, insurers are rethinking how they underwrite riots and civil commotion and looking closely at aggregation risk. Record losses this year in the U.S. and last year in Chile illustrate the growing severity of events.

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LIFE INSURANCE

To Buy or to Sell?

Mergers and acquisitions pick back up in a life insurance space that saw the beginning of 2020 marked by the uncertainty of the COVID-19 economic shock.

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ISSUES & ANSWERS

Workers' Comp and Medical Professional Liability Insurance

Industry professionals discuss the role of actuaries in the workers' comp line and how technology is impacting medical professional liability writers.

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WORKERS' COMPENSATION

On the Front Line

Presumption rules for essential workers and front-line employees with COVID-19 in some states shift the burden of proof to employers, but are they also driving up workers' compensation claims and costs?

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Cover design by Andrew Crespo - AP photo/Jeremy Hogan

NAMIC Presents Insurtech Fastpitch as Virtual Event

Nov. 2-6: VIRTUAL. International Conference on Inclusive Insurance, hosted by the Munich Re Foundation and the Microinsurance Network.

Nov. 4–5: VIRTUAL. RIMS ERM Conference, Risk and Insurance Management Society.

Nov. 4–6: VIRTUAL. NAMIC Insurtech Fastpitch, National Association of Mutual Insurance Companies.

Nov. 4–7: VIRTUAL. LAAIA 50th Annual Convention, Latin American Association of Insurance Agencies.

Nov. 9–12: VIRTUAL. CAS Annual Meeting, Casualty Actuarial Society.

Nov. 11: VIRTUAL. AM Best Annual Insurance Market Briefing—Europe & Methodology Review Seminar, London.

Nov. 16–17: VIRTUAL. NASP Annual Conference, National Association of Subrogation Professionals.

Nov. 16–18: VIRTUAL. FICP Reimagined Conference, Financial & Insurance Conference Professionals.

Nov. 18–19: VIRTUAL. IRMI Energy Risk & Insurance Conference, International Risk Management Institute.

Nov. 19–Feb. 24, 2021: VIRTUAL. NAILBA 39 Engage, National Association of Independent Life Brokerage Agencies.

All events subject to change as organizations monitor developments regarding COVID-19. For a full list of conferences and cancellations, visit *www.bestreview.com/calendar*

Attending Hosting

November Is Property Insurance and Workers' Comp Awareness Month
Best's Review presents the ranking of the top homeowners multiple peril writers and examines developments in the broader commercial property market. Workers' comp is also a focus.

Megan Thomas Is New CEO of Hamilton Re

Bermuda Monetary Authority names director, Marsh executive named president of Guy Carpenter, and Lockton names chief financial officer and chief people officer.

Hamilton Insurance Group Ltd. named Megan Thomas as chief executive officer of Hamilton Re Ltd., the company's reinsurance and insurance platform in Bermuda.

Thomas succeeds David Brown, who was named interim CEO when former CEO Kathleen Reardon left the company.

Thomas was to transition to her new role in October pending immigration and regulatory approvals. She will be based in Bermuda and will report to Pina Albo, group CEO.

Megan Thomas

"The breadth and depth of her underwriting experience across multiple lines of business on a global basis, as well as her strong leadership and relationships with clients and brokers, will help us to leverage the many opportunities we are seeing in today's hardening market," said Albo. "We are indeed fortunate to have found Megan at this exciting stage of building a global specialty insurance and reinsurance franchise. Her discussions with members of our board and our executive team confirmed to all of us not only that Megan has what it takes to assist Hamilton in capitalizing on the market's potential, but also that she'll be a great fit for our company."

Thomas has 20 years of insurance and reinsurance experience. Australian by birth and a lawyer by training, she joins the company from Axis Capital, where she has held the position of chief underwriting officer, reinsurance, for the past two years. Thomas began her career in the Australian insurance and financial services market. She spent almost 13 years at American International Group Inc., where she held increasingly senior roles, the last of which was CUO, liability lines, before assuming her role at Axis Capital.

—Staff Report

Bermuda Monetary Authority Names Director, Supervision of Insurance

The Bermuda Monetary Authority has named Gerald Gakundi as director, supervision of insurance. Gakundi joined the BMA in 2010 as assistant director, supervision of insurance, and was subsequently promoted to deputy director.

Gerald Gakundi

In his new role, Gakundi will participate as a member of the BMA's senior leadership team, contributing to the development and implementation of the authority's strategies and policies, with a specific focus on leading the teams supervising all (re)insurance licensed entities.

Gakundi has more than 15 years of experience in the insurance industry. He has extensive knowledge of Bermuda's insurance regulatory environment. This has allowed him to be an active contributor in the BMA's international engagement, including leading dialogue with the National Association of Insurance Commissioners Executive Committee, European Insurance and Occupational Pensions Authority and numerous other insurance regulatory authorities.

AmeriLife Group Names Chief Operating Officer, InfoTech EVP

AmeriLife Group LLC has named Tim Calvert to the newly created role of chief operating officer and Paul Carter as executive vice president of operations and information technology integration.

In his new role, Calvert will be a member of the executive leadership team and will be responsible for leading all existing back- and middle-office functions, which include the company's information technology group functions and third-party administrator operations.

Calvert has over 25 years of experience working with the insurance industry, with a focus on serving the life and annuity and group/worksite insurance segments. Prior to joining AmeriLife, Calvert served as managing director and partner for Boston Consulting Group.

Long-Time Marsh Executive Named President of Guy Carpenter

Dean Klisura

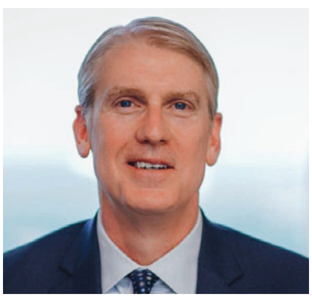
Guy Carpenter and Marsh have named Dean Klisura in the newly created role of president of Guy Carpenter. Klisura was to transition to his new role on Oct. 1.

Klisura will be responsible for Guy Carpenter's North America, international, specialty, and global strategic advisory units and will assist CEO Peter Hearn in leading the firm's overall strategy. He will continue to be based in New York.

Klisura joins Guy Carpenter following a 27-year career at Marsh in a variety of senior roles, most recently as president of global placement and advisory.

Following Klisura's transition to his new role, Lucy Clarke, president of Marsh JLT Specialty, will assume additional responsibility for Marsh's global placement operations.

USAA Names Chief Financial Officer



Jeff Wallace

USAA has named Jeff Wallace to succeed Laura Bishop as chief financial officer.

Wallace will report to Wayne Peacock, chief executive officer, and replaces Bishop, who announced her retirement in February after more than 19 years of service.

Wallace comes to USAA from Bank of America, where he most recently served as the chief financial officer of the consumer banking and global wealth and investment management business.

Prudential Financial Names Chief Marketing Officer

Susan Somersille Johnson

Prudential Financial Inc. named Susan Somersille Johnson to succeed Naveen Agarwal as chief marketing officer.

In her new role, Johnson is responsible for leading the company's global marketing and brand strategy and for helping to drive profitable growth for Prudential. She replaces Agarwal, who served as chief marketing officer since 2019 and will take on a new role as chief market development officer. Agarwal will be based in Silicon Valley.

Johnson joins Prudential from Truist Financial, the bank holding company formed in 2019 following the merger of SunTrust Bank and BB&T, where she was corporate executive vice president and chief marketing officer. Johnson began her career as an engineer at Apple before taking on a series of marketing leadership roles at organizations including NCR Corp. and Nokia.

Allstate Names New Executive Vice President-General Counsel

Rhonda Ferguson

Allstate Corp. has named Rhonda Ferguson to succeed Susie Lees as executive vice president and general counsel.

Ferguson was to transition to her new role on Sept. 28 and replaces Lees, who has announced her decision to retire in 2021 after 32 years with Allstate. Lees will remain chief legal officer and secretary of the corporation until her retirement date. During the transition, Lees will expand her focus on Allstate's environmental, social and governance initiatives.

Ferguson joins Allstate from Union Pacific Railroad, where she has served as executive vice president, chief legal officer and corporate secretary and was responsible for all legal, regulatory and corporate governance initiatives.

Ferguson joined Union Pacific in 2016 after nearly a decade as vice president, corporate secretary and chief ethics officer at FirstEnergy, an electric utility in her home state of Ohio.

Markel Names Chief Risk Officer

Markel Corp. has named Julia Chu as chief risk officer.

Julia Chu

Chu will be responsible for Markel's enterprise risk management, capital planning, and ceded reinsurance placements. Each function serves a critical role in managing insurance risk, and their combination under Chu's leadership will promote Markel's strategy of efficiently utilizing capital to create value for customers and shareholders.

Chu will report to Jeremy Noble, chief financial officer, and will be based in Markel's corporate headquarters in Richmond, Virginia.

Chubb Names Regional President, Far East

Chubb Ltd. has named Diego Sosa, currently chief operating officer for Chubb in Brazil, to succeed Brad Bennett as regional president, Far East.

Diego Sosa

Sosa was to transition to his new role on Oct. 1 and replaces Bennett, who was previously named chief operating officer of Chubb Life. Sosa will have overall responsibility for the management and business results of Chubb's general insurance operations in Japan.

He will relocate to Tokyo. The appointment is subject to regulatory approval in Japan.

Sosa has more than 25 years of experience in insurance and finance, including 13 years at Chubb. Prior to joining Chubb, he was at QBE, where he held country president roles in Mexico and Ecuador.

Lockton Names Chief Financial Officer And Chief People Officer

Lockton has named Troy Cook as chief financial officer. Cook was to transition to his new role on Sept. 24 and will lead Lockton's strategic finance function in alignment with the company's aggressive growth plan.

Cook has more than 25 years of extensive financial and operational knowledge. Most recently, Cook served for over 20 years as executive vice president and chief financial officer at NPC International before retiring in 2018.

Kelly Conway

Earlier, Lockton had named Kelly Conway as chief people officer.

In this position, Conway will lead Lockton's people strategy, focusing on continuing to attract, develop, and retain industry-leading talent to support the company's growth.

In addition to taking responsibility for central human resource functions, Conway will partner across the organization to enhance the experience of all Lockton's people. Conway joins Lockton from Stryker, where she served most recently as vice president of human resources for the organization's global quality and operations group. Kelly had more than 15 years of human resources experience from TomoTherapy, Coca-Cola, and Bank of Arizona/New Mexico.

Founder of Somerset Reinsurance Ltd. Announces Retirement; Successor Named

Somerset Reinsurance Ltd. has named Jeff Burt, currently president of Hannover Life Reinsurance Company of America, to succeed Patrick Kelleher as chief executive officer.

Jeff Burt

Pete Schaefer, CEO of Hannover Re U.S. will reassume the title of president and CEO upon Burt's transition to his new role.

Burt will continue to serve as president of Hannover Re U.S. until the end of 2020 when he replaces Kelleher, the firm's founding CEO, who has announced his retirement effective Dec. 31. Kelleher has served as CEO and director of Somerset Re since the company's inception. Following his retirement, Kelleher will serve as a consultant to Somerset Re through March 31, 2021.

In addition to his new role with Somerset Re, Burt will become vice chairman of the Kubera Insurance board effective Jan. 1, 2021.

Insurtech Root Names Former Tenn. Insurance Commissioner Senior Deputy Counsel

Root Inc., the parent company of Root Insurance, has named Julie Mix McPeak, former insurance commissioner of the Tennessee Department of Commerce and Insurance, as senior deputy general counsel.

Julie Mix McPeak

McPeak comes to Root from the global law firm Greenberg Traurig P.A., where she led the insurance regulatory and transactions practice and helped establish an additional office for the firm in Nashville, Tennessee.

McPeak was first appointed Tennessee's insurance commissioner in 2011, and was reappointed to her state position in December 2018. She left that post on June 14, 2019.

She also is a former executive director of the Kentucky Office of Insurance.

Topa Insurance Group Names Vice President-Chief Information Officer

Topa Insurance Group, a boutique property/casualty insurer, has named Tracy Tillinghast as vice president and chief information officer. Tillinghast will be responsible for driving the company's technology strategy and leading the information technology department.

Tracy Tillinghast

Tillinghast joined the company in 2018 as director of IT product management and earlier this year was promoted to assistant vice president of IT. BR

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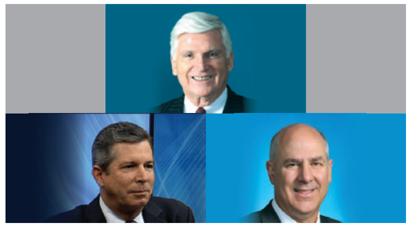
The Entrepreneurial Agent/Broker

Watch for our series of discussions with top industry leaders about how tomorrow's insurance coverages, business models and risk strategies get their start, often in the field crafted by innovative agents and brokers. These discussions will air on AMBestTV beginning on November 16 and will be presented in the December issue of *Best's Review.*

For more information, watch a video: *www.ambest.com/agentbroker*

Strength Through Specialization: November 16



High-profile insurance leaders who built world-spanning careers on focused risks explain their strategies, as well as how they benchmark opportunities, and identify and capture new markets.

Panelists:

Patrick G. Ryan,
Founder, Chairman & CEO,
Ryan Specialty Group

Matthew Power,
President,
One80 Intermediaries

Steve DeCarlo,
Executive Chairman,
AmWINS Group

Insurtech Drives Distribution Innovation: November 17

As the insurance value chain continues to evolve, MGAs are assuming leading roles as insurance innovators, using insurtech and state-of-the-art distribution to pioneer specialized coverages. A panel of leading tech-enabled distributors examine how technology, versatility and being in an advantageous position among insurers, agents and insureds create opportunity at all levels.

Panelists:

Tim Attia,
Co-Founder and
Chief Executive Officer,
Slice

Philip Edmundson,
Founder and
Chief Executive Officer,
Corvus Insurance

Richard McCathron,
President,
Hippo

Programs That Produce: November 18

Identifying, launching and maintaining a successful program business is a combination of creativity, strong relationships and focusing on defined niches. A panel of veteran program business leaders explain what guides them and how they gauge insurer support, as well as how to move into the program sector and assess prospective opportunities.

Panelists:

Geof McKernan,
Founder,
NSM Insurance Group

Heidi Strommen,
President,
ProHost USA

David Springer,
Group President and
Chief Operating Officer,
NIP Group

Joel Cavaness,
President,
Risk Placement Services

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Teaming Up

The Aflac Duck teams up with a legendary football coach to help Americans facing out-of-pocket medical bills, and Progressive rides into a new national motorcycle racing championship sponsorship.

Playbook

The **AFLAC** Duck is at it again, this time reuniting with legendary football coach Nick Saban to continue its mission of relief and reassurance to Americans facing out-of-pocket medical bills.

Aflac unveiled a two-spot campaign, titled "The Program," which builds on its 2019 "Aflac Isn't" campaign that helped clear up misconceptions about how the insurer's plans work. Its most recent campaign, Aflac's second marketing campaign featuring University of Alabama head football coach Saban and the Aflac Duck, debuted in September on NBC during an NFL game between the Houston Texans and the Kansas City Chiefs.

Last year's campaign, "Five Star," featuring Saban and Aflac's iconic feathered spokesduck, was designed "to take us on a recruiting journey that parallels Aflac sales agents' efforts to recruit new policyholders," said Aflac spokesman Jon Sullivan.

"Go Time," the first of two commercials in the latest campaign, features Saban leading an impromptu quiz as team members show they've studied their playbooks by accurately stating that Aflac helps with expenses health insurance doesn't cover. The company plans to air the campaign's second spot, "Film Room," later this year.

Racing Ahead

Photo courtesy of American Flat Track

PROGRESSIVE INSURANCE has entered into a landmark multiyear partnership with American Flat Track and has become the title sponsor and official insurance company of the national motorcycle racing championship.

The series was founded and sanctioned by the American Motorcyclist Association in 1954. It was rebranded in 2016 to restructure its classes and modernize the event format.

Progressive has been insuring motorcycles, motor scooters and motor bikes since 1964. It is also a "long-standing supporter of the two-wheeled community, with product offerings and sponsorship of motorcycle events, rallies and racing teams spanning over decades," said Eric Doubler, Progressive's recreational vehicle business leader. "This agreement marks our commitment to the sport during a key period of growth."

Progressive's sponsorship of American Flat Track includes a $50,000 year-end points fund, awarded to the top performing riders in the AFT SuperTwins presented by Vance & Hines, AFT Production Twins and AFT Singles presented by Russ Brown Motorcycle Attorneys division. The AFT SuperTwins class represents a unity of elite teams and the most skilled athletes who compete at every round of AFT competition.

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

Rooting Out Inequities

Taking a stand on social issues and removing bias from processes will help insurers attract young talent.

By **Carly Burnham**

The death of George Floyd and the riots and protests that followed have forced many of us to take a hard look at ourselves as well as the role of race in the insurance industry. Many Americans have watched these events and the calls to address racial inequities in our country from a distance.

But I live in Minneapolis and for me, these events have felt personal.

Like many millennials, I feel strongly about social justice and believe insurance has a role to play in pro-social efforts. The renewed focus on racial equality ties in with two topics that are close to my heart. How can the insurance industry attract and retain talent? And how can we serve all members of society?

The insurance industry faces stiff competition for top talent and young people have choices when deciding where to work. With this generation projected to comprise three-quarters of the workforce by 2025, it's important for companies to take clear stands on social issues like racial inequality if they want to attract and retain young, diverse talent.

Many already have. CEOs such as Apple's Tim Cook to Microsoft's Satya Nadella to Verizon's Hans Vestberg have not only expressed support for the racial justice movement, but they also have pledged to examine their own companies for areas of bias.

Many insurance companies are making similar showings of support. A number of insurers have made donations in support of racial equality efforts in recent months and have also expressed their commitment to diversity and inclusion.

Canada's Manulife earlier this year announced specific hiring and recruitment goals to increase the proportion of minorities employed in its North American businesses as part of a new five-year initiative to increase the company's diversity and inclusion.

Even so, the insurance industry needs to actively further its own diversity. This matters for a number of reasons. First, millennial and Gen Z employees want to work at companies that reflect the diversity of our country. Secondly, a more diverse workforce will lead to more creative ideas and cultures, and the insurance solutions we build will reflect more voices. Finally, customers increasingly want to do business with companies that they trust, and one of the best ways

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*.

to build trust is to reflect the actual landscape of the population that you are serving.

This also leads to examining our products with an eye toward uncovering racial inequities.

Our products use rating factors like location and credit score to determine the premium that we charge. While those factors are actuarially sound, and we can prove that they are correlated with the likelihood of a claim, the Center for Economic and Social Justice, a nonprofit consumer advocacy organization, believes that an effect of those factors is that Black Americans pay more for car insurance. Recognizing this is problematic, the National Association of Insurance Commissioners has formed a special committee to focus on race and insurance.

We must think critically at this time about what other examples may exist in our processes that have led to similar outcomes. We should consider whether new technologies, such as road risk ratings and telematics, provide a more accurate and unbiased view of driver risk than ZIP codes, which historically have been linked to redlining.

We should consider where we appoint agents and how our target markets may lead to favoring certain communities over others. A number of these considerations are more likely to surface with more diverse teams. Either way, we should commit to doing the work to find and root out any racial inequalities within our processes.

Employees and customers—both existing and prospective—increasingly expect companies to identify and remedy such inequities. We are up to the challenge, and we will better accomplish the goals of our industry if we meet it. BR

In the News

Regulatory Update

NY acts on life insurance denials over Naloxone; Texas Insurance Department approves stamping fee reduction and SC governor signs flood law.

Life Insurance: New York Gov. Andrew Cuomo has signed a bill making it illegal for life insurers to deny a request for coverage solely because the individual has prescribed medications to combat opioid use.

The measure first came up last year when New York officials learned some medical professionals who carried the drugs to be able to save lives were being denied insurance coverage. Naloxone, also known as Narcan, is administered to reverse the effects of an overdose of opioids such as heroin and oxycodone.

Health insurers praised the new law.

New York's Department of Financial Services last year issued a letter recommending insurers discontinue denials of coverage solely because of a prescription of naloxone.

The law signed by Cuomo goes further. It prohibits insurers from refusing to issue any individual a life insurance policy or annuity contract "or adjust the amount of premiums, or rates, charged" for the policy solely because the individual has been prescribed medications used to block the effects of opioids.

Surplus Lines: Texas Insurance Commissioner Kent Sullivan, who stepped down in September, approved a surplus lines stamping fee reduction to 0.075% of gross premium

Report, Survey Lay Out Impact Of COVID-19's Disruptions

The World Economic Forum's survey and Lloyd's report focus on global systemic risk concerns.

by David Pilla

COVID-19 concerns brought unemployment and infectious diseases to the top of an international risks survey led by the World Economic Forum.

The pandemic also focused global attention on the capacity of cities to withstand the impacts of systemic risks including pandemics, highlighting features that contribute to both resilience and vulnerability, said Lloyd's in a separate report, "Cities at risk—Building a resilient future for the world's urban centers," published in association with Urban Foresight and Newcastle University.

The pandemic "brought into focus the impacts systemic risks can have on our urban areas, with severe economic and social consequences extending across the world," the Lloyd's report said.

Unemployment is now the main concern for business executives worldwide, with infectious diseases coming in second and the fiscal crisis, last year's top concern, at No. 3, according to the WEF's interactive map, "Regional Risks for Doing Business 2020." Cyberattacks and "profound social instability" round out the top five.

"The COVID-19 crisis has shone a spotlight on organizational resilience," John Q. Doyle, president and chief executive officer, with broker Marsh, said in a statement.

"As firms look to the future, they are matching their risk and resilience arrangements with a threat landscape marked by significant customer and workforce behavioral shifts."

> COVID-19 "is distracting us from certain long-term risks that will be around long after the current crisis is resolved."
>
> **Peter Giger**
> Zurich Insurance Group

Infectious diseases rose 28 places to become the second most-recurring risk, appearing in the top 10 in all regions except South Asia, the WEF said.

Peter Giger, chief risk officer, Zurich Insurance Group, said COVID-19 "is distracting us from certain long-term risks that will be around long after the current crisis is resolved." At the same time, the pandemic "is also having the positive effect of leading many to reassess priorities," said Giger. "This, I hope, will ensure that businesses advance their risk resilience strategies and result in decisive and impactful action to combat existential risks like climate change."

Surveyed regions include East Asia and the Pacific, Eurasia, Europe, Latin America and the Caribbean, Middle East and North Africa, North America, South Asia, and sub-Saharan Africa. The WEF survey tracks 30 risks, including terrorist attacks, extreme weather events and state collapse or crisis. The top risks are mostly related to economics, but climate-related risks "are causing greater concern this year, with natural catastrophes, extreme weather events, biodiversity loss and ecosystem collapse , and failure of climate-change adaptation featuring more prominently," the WEF said. BR

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

IUA: Brexit Bites Into London Market Premium Income

Reorganization and the impending loss of financial services passporting rules has meant that a large amount of business written in Europe is no longer overseen and managed in London.

by David Pilla

Premium income for the London market fell 2.8% in 2019 as a 10% rise in market income in London itself was offset by a 30% fall in business written elsewhere, but overseen by London operations, with Brexit looming, said the International Underwriting Association.

Shifts in premium volume from 2018 to 2019 "can be attributed to a number of factors, but have been largely influenced by companies adapting their operations to accommodate Brexit," the IUA said in its London companies market statistics report.

> "With the end of the Brexit transition looming our report shows that IUA members are well-positioned to continue serving their clients with new operational structures up and running."
>
> **Dave Matcham**
> International Underwriting Association

"With the end of the Brexit transition looming our report shows that IUA members are well-positioned to continue serving their clients with new operational structures up and running," Dave Matcham, chief executive officer, IUA, said in a statement. "Reorganization and the impending loss of financial services passporting rules has meant that a large amount of business written in Europe is no longer overseen and managed in the same way by London, but reported directly to operations located within the [European Union]. Such restructuring has increased costs for IUA members, making them globally more inefficient and, ultimately, less able to offer a better deal for clients."

Gross premium income for the London company market was £21.44 billion ($27.68 billion) in 2019. Another £6.19 billion was identified as written in other locations outside London, but overseen and managed by operations in London, the report said.

The combined totals provide "an overall intellectual and economic premium" of £27.63 billion, down 2.8%, it said.

Last year, London's company insurance market reported an 8.1% increase in premium income to a record £28.4 billion in 2018.

"The picture, however, is complicated with a significant rise of almost 10% for premium written in London, which is offset by a 30% reduction in business written elsewhere but overseen by London operations," the report said.

Premiums written in London were mostly from direct/facultative placements, at 76% of the total, as treaty business accounted for 24%, the report said. BR

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

Regulatory Update

from 0.15%. The new rate takes effect Jan. 1, 2021, the Surplus Lines Stamping Office of Texas said in a statement.

The new stamping fee rate will apply to each new or renewal surplus lines policy with an effective date on or after Jan. 1, it said. The new rate also will apply to policy date extensions effective on or after Jan. 1, it said.

Policies effective on or before Dec. 31 will run to expiration, cancellation, or next annual anniversary date, for multiyear policies, at the previous rate of 0.15%, it said.

The old rate will continue to apply to any subsequent endorsements, audits, cancellations, reinstatements, installments, and monthly or quarterly reports, it said.

Flood Insurance: A new law in South Carolina is designed to boost innovation in flood insurance products in South Carolina by giving insurers the ability to test products in the market.

Gov. Henry McMaster recently signed the South Carolina Private Flood Insurance Act, which should give consumers more choice in flood insurance products, the state Department of Insurance said in a statement.

The act recognizes the various forms of private flood insurance available today—those meeting NFIP standards, discretionary acceptance policies, and any other type of coverage that covers losses resulting from flood, the statement said.

The new law also streamlines the regulatory oversight of forms and rates for private flood insurance coverage; allows for additional underwriting flexibility to incentivize carriers to offer coverage where and when it meets their underwriting criteria; and requires 45 days' notice before a private flood insurance policy is canceled or nonrenewed, it said.

At Large

Compare And Contrast

While similar in impact, COVID-19 and 9/11 differ significantly in terms of losses and reserve deficiency.

By **Stephen Catlin**

It has been more than nine months since the first cases of COVID-19 were reported. I believe it's time to examine the potential long-term impact of the pandemic on the property/casualty insurance industry.

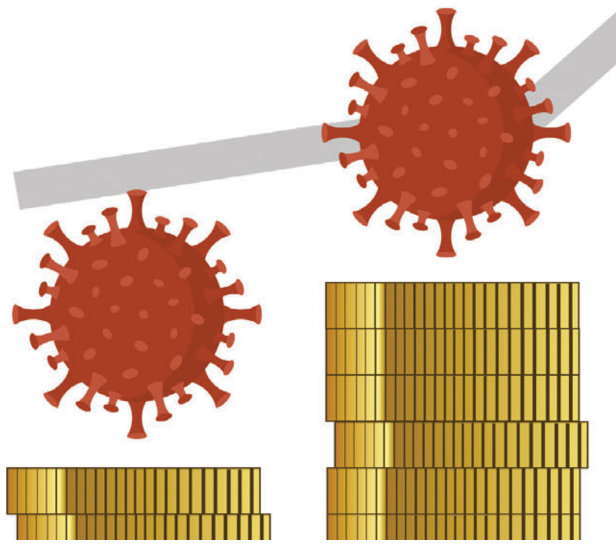
It is currently impossible to estimate with any precision how much coronavirus-related claims will cost. I've seen various reports that estimate total COVID-19-related losses at between $40 billion to $60 billion. My own view is that claims arising from the pandemic will actually amount to $100 billion to $200 billion. It's rare that financial losses from a major event do not exceed early estimates.

People with whom I have spoken have noted a similarity between the potential impact of COVID-19 on the insurance industry and the impact caused by 9/11. I partly agree. In both cases, the industry faced a severe loss event while, at the same time, needing to strengthen casualty reserves.

I wrote about the current shortfall in casualty reserves in February. Until about a year ago, insurers had generally underpriced casualty business for more than a decade. As a result, I estimate industrywide casualty reserves could now be deficient by $100 billion to as much as $200 billion.

Despite some similarity, however, there are significant differences between 9/11 and COVID-19 in terms of the impact on insurers.

First, there is the matter of quantum. In 2001, the overall deficiency in casualty reserves totaled approximately $25 billion, while the cost of all claims relating to 9/11 amounted to less than $30 billion. Even when taking into account inflation and the substantial increase in the industry's capital base, insurers today face a much larger problem than then.



There are also timing differences between the two events. The reserve deficiency in 2001 developed over about a five-year period, compared with a 10-year period for the current situation, making the shortfall in 2001 easier to quantify. Perhaps more importantly, claims arising from the events comprising 9/11 settled relatively quickly, except for the property coverage dispute for the Twin Towers. There was relative clarity regarding the size of the overall 9/11 loss within two years.

It will take much longer—perhaps up to five years—to calculate with reasonable clarity the cost of COVID-19 claims. The complicating factors

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include uncertainty over whether policies actually cover coronavirus-related losses, uncertainty over the definition of what actually constitutes a loss and, inevitably, aggressive actions by the plaintiffs' bar.

We also must keep in mind the severe impact on the global economy caused by COVID-19 and the likelihood that the worst might be yet to come. Insurers have already suffered an asset loss estimated at between $50 billion and $100 billion due to the pandemic. That, however, may be the tip of the iceberg. Economic fundamentals appear to be in terrible shape. We are facing unprecedented unemployment levels, which in turn will shrink consumer spending. Many sectors—including retail, travel, hospitality and entertainment—are facing extremely serious problems, and it's logical that knock-on effects will be felt by other industries.

I would not be surprised if there was another global financial crisis by the end of 2021.

What does all this mean for insurers? It is likely they will be hit with a vast level of COVID-19 claims. There is a casualty reserve deficit that must be addressed soon. Finally, the industry faces a potential economic downturn that could significantly reduce the demand for commercial lines of insurance, meaning that premium volume may remain static despite the prospect of significant rate increases.

Rates will probably not rise forever, but if the scenario I have outlined comes true, the industry will not be able to afford to reduce rates for a few years to come. The future looks challenging for the industry, but there will be opportunity for insurers to prosper so long as they have the right risk appetite and the flexibility to deploy capital to different product lines. BR

Mission Critical

The structured settlement industry is ripe for digital disruption.

By Pat Saporito and John Rafferty

Today's U.S. structured settlement industry is very concentrated with $6.5 billion in annual premiums written through 12 life insurers and a network of 1,200 brokers. It provides products for two primary types of customers: workers who have suffered serious workplace injuries and filed workers' compensation claims, and individuals or classes of individuals who have been awarded large cash settlements from a tort or class-action lawsuit.

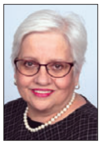
A structured settlement provides a valuable social service by ensuring that claims settlement funds last a seriously injured person through his or her lifetime. One-time cash awards without other life and annuity or other products generally last five years or less. Certainly valuable to society, yet more can be done to provide both a public benefit and increased industry revenue opportunity.

Structured settlement business processes are well-developed, but the technologies used to support them are antiquated.

The drive toward digital transformation is strongly advancing in the nonlife industry but lagging far behind in the life and annuity industries other than in the broad marketing and sales areas. Many life insurers are still reliant on technologies of the 1990s, including client server and desktop applications. For instance, the quoting software used by most life insurers and brokers is written in desktop programming languages developed prior to the internet and cloud-based applications.

The industry needs to innovate and leverage modern technology to help solve inherent shortcomings, including the lack of data standardization and security, application mobility and portability, insight into business quoted versus sold and competitor analysis, and agility in adding new, or enhancing existing products. Other shortcomings include difficulty in integrating applications and architectural fit, and perhaps the most important one, attracting and supporting the next generation of structured settlement sales professionals.

The industry now faces two strong challenges, according to a Deloitte article, "2020 Insurance Outlook: Insurers Adapt to Grow in a Volatile Economy." One of the challenges is growth. Global life

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and annuity premiums are forecast to increase only by 2.9% in each of the next two years.

The other challenge facing the industry is talent. Today, the industry is attracting less than 4% of millennials due to its lack of using modern technologies, which is compounded by baby boomers (who comprise one-fourth of the insurance industry workforce) reaching retirement age. This one-two punch presents a perfect storm for other financial services industry players to move into products that can replace structured settlements.

Digital transformation is "mission critical." The industry must reimagine how a holistic approach that benefits both injured individuals and carriers and aligns and engages all stakeholders based on the claimant's life care plan can generate multiple structured settlement scenarios.

Insurers can begin by using digital technologies to modernize legacy front-end systems and collaboratively and holistically engage all parties, including claimants, carriers, attorneys and others. Big data and artificial intelligence can support dynamic real-time scenario analysis and proposal generation. Such a digital structured settlement solution can provide a foundation for extension into asset under management products that will attract more millennials into the industry.

Life and annuity insurers can make this transition independently or collaboratively. The choice is theirs, but the warning bells have sounded. The question now is whether the industry will continue to own and grow this market or other financial services providers will move in and make these changes. BR

Special Advertising Section

BEST'S REVIEW®

ISSUES & ANSWERS: WORKERS' COMP AND MEDICAL PROFESSIONAL LIABILITY INSURANCE

Industry professionals discuss the role of actuaries in the workers' comp line and how technology is impacting medical professional liability writers.

Interviewed Inside:

Tim Mosler
Pinnacle Actuarial Resources

Joe Murphy
Coverys

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

Actuaries in Time of COVID

Tim Mosler, Principal and Consulting Actuary with Pinnacle Actuarial Resources, said that if employers are met with increased workers' compensation rates due to COVID, they can shop around. "There's still a lot of competition in the workers' comp market, which is perhaps counterintuitive in a time of crisis like this pandemic, but we're still seeing rate decreases," he said.

PINNACLE ACTUARIAL RESOURCES

Tim Mosler
Principal and Consulting Actuary
Pinnacle Actuarial Resources

"Pinnacle Actuarial Resources is dedicated to keeping our clients up-to-date on relevant regulatory, administrative and economic conditions that impact their businesses."

What is the role of the actuary and workers' comp?

It's all related to estimating the cost of future events. That comes through in a variety of projects. The two most frequent ones are rate analyses and reserve analyses. In the rate analysis, we're projecting rates to charge for coverage in a future period. In a reserve analysis, we're estimating how much the insurer should hold at a particular point in time to settle all of the outstanding claims. That's particularly important in workers' compensation because claims can stay open for so long that frequently you see a situation where more of the claim is left to be paid than has been paid already.

How is the COVID-19 pandemic changing that role?

It makes it tougher. There's always going to be some uncertainty in predicting future events. Most of the time, we feel confident within a certain range. COVID-19 creates the chance of much higher outcomes, through many more claims being added to the system. Because of that, there's a risk that we're off significantly to the low side, which is exactly where we don't want to be for our clients.

What are the long-term implications for the workers' comp industry as a result of the pandemic?

The first is the risk of mass insolvencies, the idea that it's going to put insurers out of business, but that feels relatively low to me in this period of relatively high profitability. The bigger risk is compensability for a large set of COVID claims being decided by a judge or the executive branch leaving insurers ultimately responsible for claims they never considered when setting rates. If that happens, insurers could be hesitant to insure certain classes, like healthcare workers, going forward. That could result in an availability problem similar to that caused by terrorism for policies issued in 2002. That could lead to a federal backstop for pandemics as we move forward. There is one such proposal right now called the Pandemic Risk Insurance Act, or PRIA. If that were to come to pass, then there would be an optional federal backstop for those companies that wanted to buy into it.

How can insurers and actuaries work better together?

The keys to that relationship are communication and data. In terms of the data, every insurer should know which claims in their loss run are COVID claims. That gives the actuary an option to analyze those claims separately. If the amounts are small, they can be included in the analysis knowing they won't distort the results. At the very least, it lets the actuary get a handle on how much the data has been skewed by COVID claims. The same holds true with premium and payroll. With premium and payroll data, the real question is whether those are estimates or whether they've been adjusted to reflect the pandemic conditions. Actuaries would prefer the latter, but it's more work for the insurers. On the soft data side, insurers need to educate actuaries on the laws of their states so that we know about those presumptions and know what the risk is. The insurer may be in a state where COVID claims are generally not covered and then it's a minor issue in the actuary's work. Or, the insurer may be in a state where the judiciary is taking the stance that if there's any way COVID might have come from work, then it is a workers' comp claim. In that case, COVID claims need stronger consideration by the actuary.


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Changing Landscape in MPL

Joe Murphy, chief operating officer for Coverys, said advanced analytics will help not only predict risk in this changing world, but appropriately price it, mitigate it, and effectively manage it. "At Coverys, we have been developing a risk scoring tool that not only integrates our own data but other external data sets as well," he said. The following are excerpts of an interview.

Joe Murphy
Chief Operating Officer
Coverys

At Coverys, we're committed to helping providers reduce the endless distractions that keep them from focusing on patient care which have become increasingly difficult to providers during this time of pandemic.

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

How is this pandemic impacting MPL writers?

Broadly speaking, our business has not been materially impacted by COVID-19. Certainly, we have insureds who have been adversely impacted, and we've responded by providing underwriting accommodation through endorsements and credits, and offering premium deferrals. To date, we've processed nearly a thousand credit endorsements. The overall premium impact is still within what we thought it would be back in the early days of the pandemic in March. We continue to renew business and write new business. Our retention rate is right in the margin that we'd like it to be in. While I can't speak specifically to other writers, there clearly continues to be competition in pockets, with continued aggressive pricing. The overall market has been firming up, but there's still ample capacity within the traditional admitted market.

What role is telemedicine playing today, and is that being driven by the pandemic?

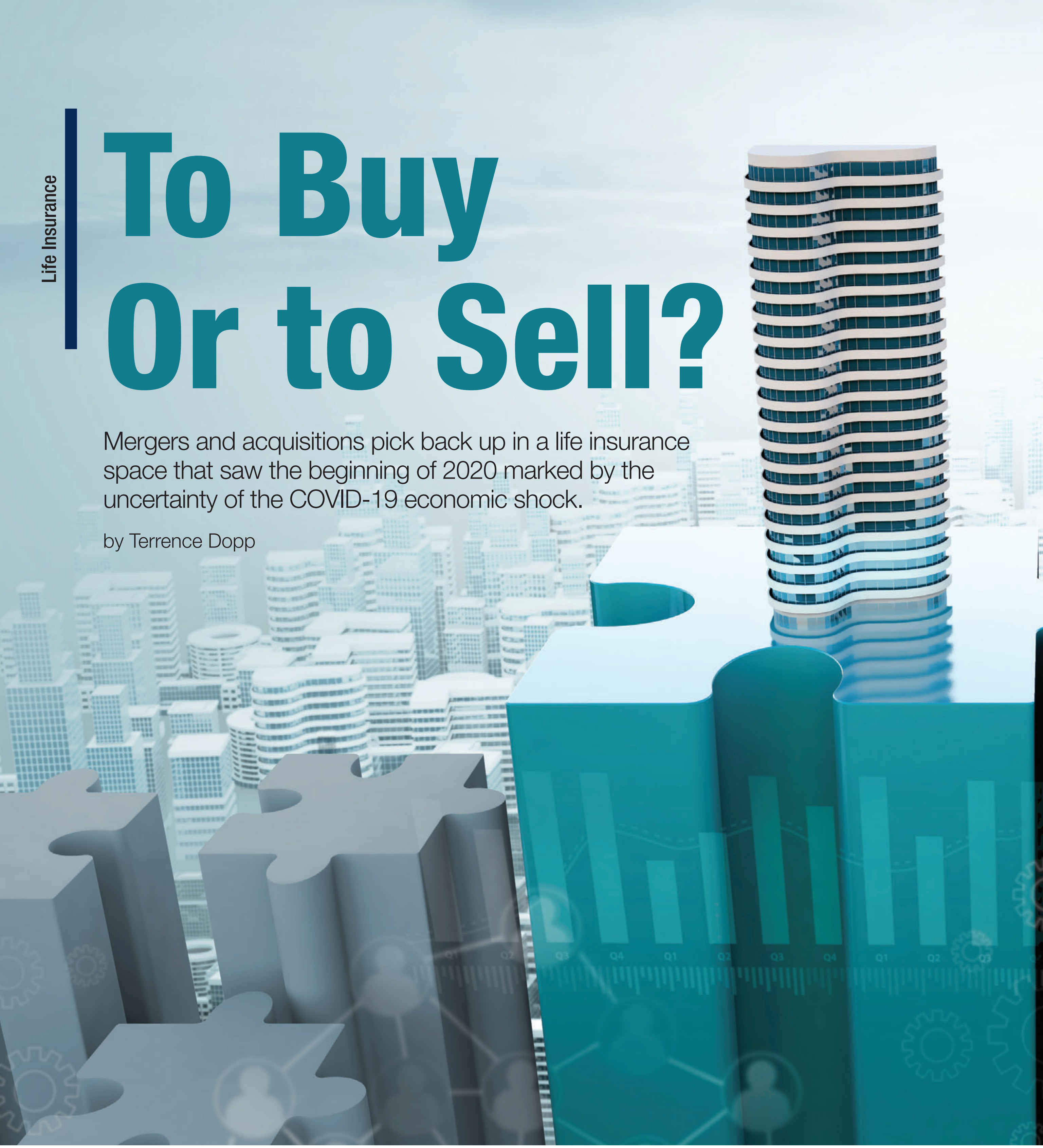
The movement toward virtual care has absolutely been driven by the pandemic. We've made more progress, in terms of the adoption of telemedicine in the last six months, than we've made in the last six years. It's important to know that telemedicine is a highly organized and structured model that's been around for a number of years. It was safely designed for a physician to use with recommended protocols, and now with the pandemic the barriers to use telemedicine have been modified or relaxed.

Have you noticed an increase in physician migration?

Within our traditional book of admitted business, we've not necessarily seen a difference in 2020 from, say, 2019, or even earlier years. However, the longer-term effects of COVID aren't known as of yet. It's anyone's guess how that will pan out as we head into 2021. With that said, we continue to see strong retention, and we continue to see and win new business opportunities. With severity trends moving north of 3% in many jurisdictions, and the exponential growth of paid, large losses, it remains to be seen if it will have an impact on hospital systems.

How is technology changing MPL?

As an industry, historically, in the medical professional liability area, we've always looked at data that we have access to in evaluating risk. But this has really been a look at it in the past tense—true both in terms of premium pricing and in terms of managing risk based on what has already happened. Now, however, we're watching the delivery of care shift to new models in front of our very eyes. It isn't just the pandemic that is doing this. The movement toward value-based care was already catalyzing new approaches to traditional medicine. If we look at things like payment reform, those existed outside the Affordable Care Act. Those are things that were occurring because insureds were demanding that something be done about the increasing cost of health care. As these changes occur, we need ways to look forward to predict what will happen in the future, to predict risk, to understand these emerging vulnerabilities, and to help providers, practices, and hospitals proactively manage those risks.



To Buy Or to Sell?

Mergers and acquisitions pick back up in a life insurance space that saw the beginning of 2020 marked by the uncertainty of the COVID-19 economic shock.

by Terrence Dopp

In the back halls of the life insurance and annuities world, mergers and acquisitions chugged along at the same rate as before the COVID-19 pandemic through June, in a 2020 that was marked by uncertainty.

Joblessness rose in the first half of the year and lockdowns to stanch the spread of the novel coronavirus brought economic activity to a crawl for months. Yet in the insurance industry, the urge to buy and sell companies in the hopes of paying a growth premium or losing

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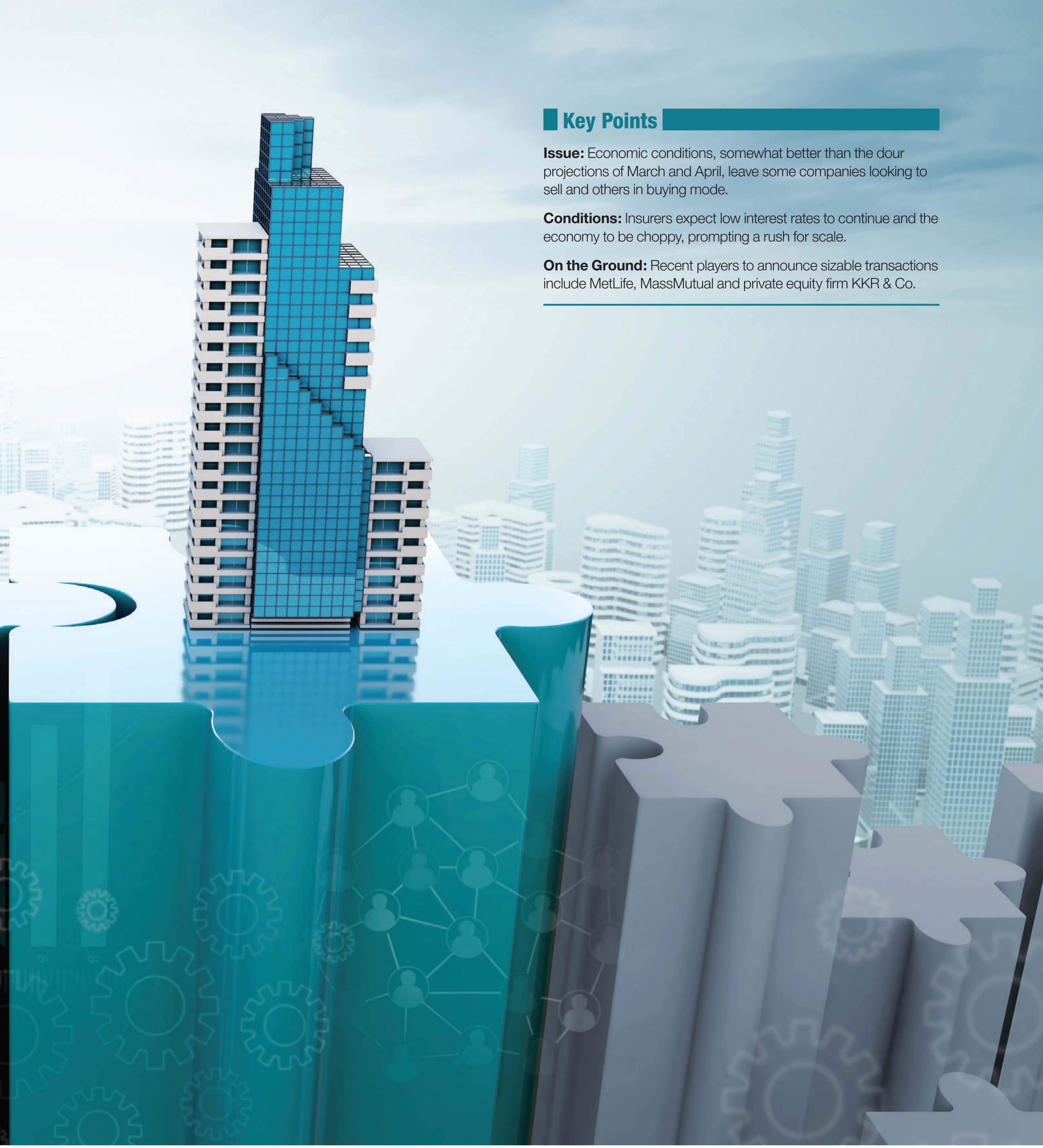


Key Points

Issue: Economic conditions, somewhat better than the dour projections of March and April, leave some companies looking to sell and others in buying mode.

Conditions: Insurers expect low interest rates to continue and the economy to be choppy, prompting a rush for scale.

On the Ground: Recent players to announce sizable transactions include MetLife, MassMutual and private equity firm KKR & Co.

an unprofitable operation never completely stopped.

In fact, many of the transactions were big. Very big.

Private equity firm KKR & Co. in July said it agreed to buy retirement and life insurance company Global Atlantic Financial Group Ltd. in what could be a deal north of $4 billion. In another noteworthy transaction announced in early September, Empower Retirement will acquire the retirement plan business of Massachusetts Mutual Life Insurance Co. in a deal valued at $2.35 billion.

And MetLife, the largest U.S. life insurer, also announced in September that it agreed to acquire Versant Health from an investor group for $1.68 billion in an all-cash transaction.

Nick Komissarov, director, North American Life M&A leader at Willis Towers Watson, said initial expectations called for a drop in activity in life insurance mergers and acquisitions, followed by some degree of return to normal levels. He cited the deal that saw a unit of Athene Holding Ltd. invest $500 million in Prudential plc's U.S. life insurance businesses, Jackson National Life Insurance Co., in addition to the KKR/Global Atlantic and Empower/Mass Mutual transactions.

In July, Willis said the impact of COVID-19 on deal-making among North American businesses in the first half of the year was "significant but not unexpected" as companies dealt with the economic slowdown caused by the pandemic. During the span, there were seven insurance transactions, mirroring the same period in 2019.

"The pick-up in activity was actually faster than what we imagined," he said. "All of these deals were quite large and quite complex. The pandemic did not stop these deals from getting signed."

He said the firm also noticed that deals announced pre-lockdown went ahead as planned. He cited the closing of a transaction that saw Carlyle Group and T&D Holdings complete their acquisition of a 76.6% stake in American International Group's legacy reinsurer Fortitude Group Holdings for $2.2 billion as a prime example.

During the turmoil in markets that took a toll on balance sheets toward the end of March some life insurers lost as much as 50% of their market value but saw a quick recovery, according to Komissarov. A persistent low interest rate environment also means carriers need to allocate resources toward existing in-force blocks of business, and divestiture of some business becomes a good option to do that.

"And some companies are just executing on plans they had before the pandemic," Komissarov said. "The technological advances, the fact that we could all work remotely relatively efficiently just meant the deal flow could continue."

Visioning Growth

The pandemic was more than an inconvenience as U.S. gross domestic product dropped 31.7% in the second quarter and the forced social distancing and shuttering of economic activity it caused sent the jobless ranks rising. Yet underlying that grim statistic was also another factor the Bureau of Economic Analysis reported for the quarter: U.S. nonfinancial corporations saw a drop in profits totaling $170.1 billion in the second quarter, but the picture for domestic financial corporations was far rosier with an increase of $39.5 billion during the same time span.

In the case of MetLife, Chief Executive Michel Khalaf said the Versant acquisition will propel the company to become the third-largest player in the group vision area. He said it adds to other recent markets the company entered such as health savings accounts, estate planning and pet insurance.

Announcing the deal in September, Khalaf said the company is also resuming share repurchases after pausing earlier in the pandemic and expects to spend the remaining $480 million set aside to do so before the end of this year. MetLife ended the second quarter with $6.6 billion in cash and liquid assets.

"We carefully weigh every use of capital against the alternatives," he said. "Our goal is to achieve the right balance between investing in growth and returning capital to create long-term shareholder value."

The transaction will give MetLife access to Versant's 35 million members, and in return MetLife's customers will gain access to Versant's "extensive" provider network. The U.S. vision care market has a 5% annual growth rate and favorable demographic trends, MetLife said.

Earlier in the summer, Khalaf said the company was "open for business" if a suitable merger or acquisition presented itself during the year.

And it wasn't alone in its deal hunting.

Dan Houston, chairman, president and chief executive of Iowa-based Principal Financial Group, said in August the company was "eyeing capital deployment" later in the year with M&A as one potential move after it avoided COVID-19 related impacts to the hardest hit industries.

Any M&A deal needs both a buyer and seller. Some are finding the time is right to shed some operations in an effort to focus on their core business.

The agreement between MassMutual and Empower is expected to close in the fourth quarter. It will mean Empower has a participant base of 12.2 million and $834 billion in assets across about 67,000 workplace savings plans. Roger Crandall, MassMutual's chairman, president and chief executive, said the deal will strengthen its position in the U.S. protection and accumulation industry by expanding wealth management and distribution; investing in asset management, insurance and institutional businesses; and improving the digital experience.

"It made strategic sense to find a company that would be a better long-term home for our retirement plan business. Now more than ever, retirement services providers must have greater scale and make significant and sustained investments to meet future competitive and evolving customer needs," Chelsea Haraty, a MassMutual spokesperson, said in an email. "Additionally, increasing fee compression spurred by historically low interest rates and an unwavering drive for efficiency are leading to ongoing industry consolidation where a smaller number of players have emerged as leading the market."

In a comment on the deal, AM Best said it's expected to reduce MassMutual's exposure to equity and interest rate risk and free up a moderate amount of statutory capital meant to grow its core business. "AM Best expects the transaction to be moderately negative to earnings in the near term until MassMutual can successfully deploy the proceeds through organic or non-organic growth opportunities and divest itself of stranded costs," the note said.

In another example of current market appetite, American Equity Investment Life Holding Co. confirmed in early October that it had received an unsolicited and non-binding proposal from Athene Holding Ltd. and Massachusetts Mutual Life Insurance Co. to acquire all of its outstanding common shares for $36 apiece in cash, or more than $3 billion. The company said it was reviewing the proposal and hadn't accepted.

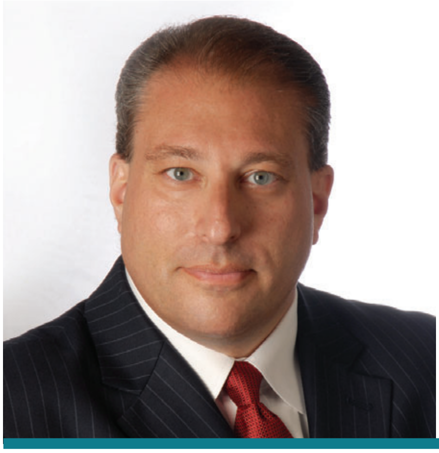
"Some companies are just executing on plans they had before the pandemic. The technological advances, the fact that we could all work remotely relatively efficiently just meant the deal flow could continue."

Nick Komissarov
Willis Towers Watson

Bird of Another Feather

In December of 2019, consultancy Deloitte released its annual outlook for the coming year on M&A activity across the insurance industry, predicting such deals would remain at about the same pace as the prior 12 months. By midyear, it had released an update counting economic, interest rate, and financial market uncertainty, as well as a hot-button presidential election, among "headwinds" that could dampen activity.

The report said the pandemic is leading insurers in the life/health and life/annuities sectors to update economic scenarios, as well as plan for continued low interest rates. A company survey of insurance executives found about half expect to be involved in M&A transactions within two years.



“The pandemic, while it initially put a hold on deal-making in general, has actually accelerated the opportunities in the marketplace.”

Mark Purowitz
Deloitte

“The aforementioned factors may force insurance carriers to make strategic choices in terms of evaluating their core offerings and disposing of noncore operations,” Deloitte said. “Disruption tends to create M&A opportunities, and we expect that to be the case in the second half of 2020 and in 2021.”

Mark Purowitz, a consulting principal who leads Insurance Mergers & Acquisitions at Deloitte, said the industry is in “respond, recover and thrive” mode.

Early 2020 was dominated by the waiting and the first responses to the crisis. As the year dragged on, he said companies began looking at recovery time frames that were much faster than anticipated, and as a result went looking for ways to thrive.

The pandemic also took less of a bite out of balance sheets than the industry saw during the 2008 financial crisis, he said.

Purowitz argues that traditional buy-side/sell-side views of insurance M&As fail to capture precisely what’s occurring at the moment.

Rather, he said other transactions such as investments in maturing insurtechs and the forging of strategic partnerships between players in the insurance space ought to be viewed through the same lens. All involve using capital in an inorganic fashion to make money, he said.

“You’re evaluating very, very similar things to solve business problems whether you are disposing of an asset or buying an asset as you would in situations where you are considering the creation of new ecosystems and alliances,” Purowitz said. “The pandemic, while it initially put a hold on deal-making in general, has actually accelerated the opportunities in the marketplace.” BR

Who Was Prepared For This?

With civil unrest on the rise globally, insurers are rethinking how they underwrite risks of riots and civil commotion and looking closely at aggregation risk. Record losses this year in the U.S. and last year in Chile illustrate the growing severity of events.

by Kate Smith

AP Photo/Julio Cortez

On Day One of the riots that followed George Floyd's death, Dawn D'Onofrio's company received a multimillion-dollar claim. Then came another one, from a completely different city in a completely different region of the country.

"That really got our attention," D'Onofrio, the president and CEO of WKFC Underwriting Managers, said. "The claims were absolutely staggering. There was no way an underwriter would have foreseen those circumstances."

2020 has been full of unforeseen circumstances for property insurers. There was the start of a global pandemic, more hurricanes than alphabet letters and West Coast wildfires so vast that their smoke tinted East Coast skies—not to mention derechos, tornadoes and convective storms.

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

Key Points

Mass Discontent: More than a quarter of the world's countries saw a dramatic rise in protests last year.

Record Losses: The riots following George Floyd's death caused more than $2 billion in insured losses, a U.S. record for civil disturbance.

New Criteria: Underwriters are paying close attention to election cycles and whether businesses are associated with anything unpopular.

RIOT RECOVERY: Cleanup begins in the streets of Minneapolis after protesters damaged and looted businesses in the wake of George Floyd's death on May 25. Floyd died while being restrained by Minneapolis police officers, sparking nationwide protests and, in some locations, riots.

On top of that, there were more riots and civil commotion than the United States has ever seen.

Between May 26 and June 8—the two-week period following Floyd's death while in custody of Minneapolis police officers—demonstrations and protests erupted in more than 40 cities across 20 states. Some of them turned into riots. Insured losses from those events surpassed $2 billion, topping the 1992 Los Angeles riots as the costliest civil disturbance in U.S. history.

"Who was prepared for rioting and protesting as we have witnessed throughout many cities in the U.S.? It has been unexpected and extreme," Brenda Austenfeld, president of national property for wholesale broker RT Specialty, said.

While the United States has seen riots and looting over the years, such as Baltimore in 2015, none rose to the magnitude of 2020. Violent demonstrations spilled into the summer and carried through to the fall. And with U.S. elections slated for this month, there is no end in sight.

"We see the election as a point of interest relative to riot and civil disorder risk; roughly half of the country will be angry either way," said Tom Johansmeyer, head of PCS, a Verisk company.

The troubles are by no means confined to the United States. Violent demonstrations are on the rise globally. According to the 2020 Verisk Political Risk Outlook, 47 countries—which equates to more than a quarter of the world's countries—saw a surge in protests in 2019.

"If the early 2000s were marked by the global war on terror, the 2010s by post-crisis economic recovery and the rise of populism, the 2020s appear set to become the decade of rage, unrest and shifting geopolitical sands," Verisk wrote in its report.

France, Hong Kong and Chile are among the most notable examples of recent costly protests. The French "yellow vest" protests caused roughly $90 million in insured losses, while protests in Hong Kong cost $77 million and unrest in Chile cost $2 billion, according to Allianz Global Corporate Specialty.

"The magnitude of the events is increasing," said Bjoern Reusswig, head of global political violence and hostile environment solutions for AGCS.

In the United States, PCS declared the post-George Floyd riots the first multistate civil disorder catastrophe. By contrast, the L.A. riots, which occurred in the wake of Rodney King's arrest and beating by Los Angeles police officers, were contained to one city. That event cost the insurance industry $775 million ($1.4 billion in today's dollars), according to the Insurance Information Institute.

Loretta Worters, spokesperson for the III, said this year's riot-related losses pale compared to hurricane losses. But when viewed in the context of an already challenged property market, they are significant.

"It's the confluence of events," Worters said. "It's not just riots. It's not just a pandemic. It's not just a hurricane. It's not just a wildfire. It's that all of these issues are coming into play at the same time for property insurers."

The riots are one additional pressure point.

"It's been death by a thousand cuts for most property insurance carriers in 2020," Rick Miller, U.S. property leader at Aon, said. "That's the environment property insurers are doing business in."

U.S. Market Changes

In the United States, losses from strike, riot and civil commotion are typically covered under property insurance policies. Though these are well-known—and named—risks, they have not been a high priority for property underwriters.

"A couple years ago, riot was likely not at the top of an underwriter's checklist when they were reviewing a particular account," Miller said. "Now it is."

The widespread unrest has caused U.S. property underwriters to pivot. They are asking more questions, reviewing different information and doing more legwork to determine clients' exposures.

"The amount of work an underwriter puts into an account is, by far, more than double than it was a year ago," D'Onofrio said. "They're looking at crime scores, looking at migration of the homeless, vacancy rates. They have to underwrite the city, the municipality, the town, and know whether the police are responding to calls or the fire departments are not going out to fires."

Some fire departments, she said, have chosen to let buildings burn rather than risk firefighters' lives by sending them into riots. "The day-to-day underwriting has increased exponentially since a year ago because we have to consider all this new information."

Property underwriters are also examining whether mobs might target particular insureds.

"If there's a storefront or an office building with an attractive business or name on it, that is a definite attraction to a mob," Miller said.

In the commercial property segment, underwriters have taken a targeted approach, identifying accounts and risks deemed to be most susceptible to riot, such as a large pharmacy chain or a large retailer with products that could be attractive to looters.

"It's not just about whether you're in an urban area," said Patrick Mulhall, executive vice president of commercial property for U.S. insurance at Sompo International. "There are industries that are more vulnerable to these perils than others. Commercial real estate comes with some of that. There's retail and subsectors of retail—pharmacies, specialty clothing companies, high-value merchandise stores."

With the 2020 riots, most of the impact has been on retail and real estate risks with urban risk concentrations, Miller said.

That was particularly true in the riots associated with Floyd's death. In that event, "one-third of the industry insured loss so far has come from three national retailers," Johansmeyer, of PCS, said.

The effect, however, has been felt by "all size business," RT Specialty's Austenfeld said. "It's just a matter of how significantly."

Even at the mom-and-pop shop level, premiums are rising.

"Across the board we're seeing rate increases," said D'Onofrio, whose program insures 8,000 policies of Main Street America-type businesses. "In certain areas where the crime scores are higher and there's a known riot exposure—for instance in high-profile metropolitan cities—we can name our pricing and terms, if we are comfortable insuring the risk.

"A year ago, we would have freely written metropolitan business all day long. Now we go in very cautiously and we tell businesses, 'We can do it, but it's going to cost significantly more and you need to have skin in the game.' They have to have a very high deductible and take ownership of protecting their property."

Aon's Miller said some markets have looked to exclude SRCC (Strikes, Riots and Civil Commotion), but that's not rampant. "The biggest change," he said, "is on the retention or deductible front for businesses deemed to be at higher risk."

Austenfeld said the excess and surplus (E&S) segment has seen an increased flow of business as standard lines tighten terms and insureds look for greater flexibility in building coverage.

"The amount of work an underwriter puts into an account is, by far, more than double than it was a year ago. …They have to underwrite the city, the municipality, the town, and know whether the police are responding to calls or the fire departments are not going out to fires."

Dawn D'Onofrio
WKFC Underwriting Managers

“Many times an underwriter, especially in the E&S world, will increase the deductible specific to this segment—rioting, civil commotion or malicious damage. We can be more creative in the [excess and surplus] world with freedom of rate and form in the nonadmitted arena.”

Brenda Austenfeld
RT Specialty

“Many times an underwriter, especially in the E&S world, will increase the deductible specific to this segment—rioting, civil commotion or malicious damage,” Austenfeld said. “We can be more creative in the E&S world with freedom of rate and form in the nonadmitted arena. If there is a single peril causing more frequent losses, we create a solution for our retail client trading partners by a specific deductible area versus changing the entire coverage for an insured.”

International Affairs

Outside the United States, strike, riot and civil commotion coverage typically falls upon the specialist market, with coverage often coming through political violence policies, Reusswig said. Until recently SRCC was a secondary concern, behind terrorism, for those underwriters. That's changed over the past two years, though.

“Fortunately those big-scale terrorist attacks are going down in number and in severity,” Reusswig said. “So now we have to change our approach because we see, on the one hand, sizable terrorist attacks going down, but SRCC events are definitely going up.”

That shift began in late 2018 with the French “yellow vest” protests, which originated in response to higher fuel taxes. In 2019, a proposed extradition bill spurred demonstrations in Hong Kong, which quickly escalated to violence. And in Chile, a 4% hike in public transportation fares kicked off months of riots that caused billions in damages.

As in the United States, international insurers have responded to the uptick by increasing rates and changing terms, particularly for certain sectors and geographies.

“The one thing that stands out about Chile and the U.S. is the disproportionate impact the retail sector felt,” Johansmeyer, of PCS, said.

A chain of supermarkets in Chile, for example, would now pay much more in premiums than a few years ago, Reusswig said. And certain retail businesses will have a harder time finding appropriate limits.

“If you are a retail chain or a high-end retailer, which makes you attractive to looting, then there will be capacity and pricing issues,” Reusswig said. “If you're a Chinese bank in Hong Kong with retail offices on the ground floor, you will have issues. If you are a Chinese investment bank with offices on the 52nd floor of a high-rise building, you probably won't feel the impact on the pricing or the capacity side.”

Underwriters also are examining new factors to their evaluation of a risk.

“We now pay a lot more attention to

Costliest U.S. Civil Disorders

Demonstrations, including riots, erupted around the U.S. after the May death of George Floyd, causing a record amount of insured losses. Here are the 10 costliest such events in U.S. history, ranked by losses in 2020 dollars.
($ Millions)

Date	Location	Estimated Losses[1] Dollars when occurred	Adjusted to 2020 Dollars
May 26-June 8, 2020	Multiple States	$2,000	$2,000
April 29-May 4, 1992	Los Angeles	775	1422
Aug. 11-17, 1965	Los Angeles	44	357
July 23, 1967	Detroit	42	322
May 17-19, 1980	Miami	65	204
April 4-9, 1968	Washington, DC	24	179
July 13-14, 1977	New York	28	118
July 12. 1967	Newark, NJ	15	115
April 6-9, 1968	Baltimore	14	104
April 4-11, 1968	Chicago	13	97

1. Includes riots and civil disorders causing insured losses to the insurance industry of at least $1 million up to 1992; $5 million from 1992 to 1996 and $25 million thereafter.
Source: The Insurance Information Institute; PCS, a Verisk company; U.S. Bureau of Labor Statistics.

elections," Reusswig said. "Elections are one of the main contributors to public unrest. We look at whether a general election or federal, state or municipality-level election is coming up in specific countries that have a track record of protests following elections. That's now absolutely part of the underwriting process."

They also look at whether clients are associated with anything unpopular. "There was a Chinese cell phone retailer that was completely looted in Hong Kong," Reusswig said. "And there was a non-Chinese cell phone retailer directly next to it that didn't have a scratch on their windows. The fact that the company was associated with China was enough for it to be raided."

Aggregation Risks

Across the globe, the rise of civil unrest is causing aggregation concerns.

While underwriters long have looked at aggregations regarding natural catastrophes, riots are now in the consideration mix.

"If you are a large national retailer with multiple locations in a particular city, underwriters will review that risk accordingly," Miller said. "You are now looking at the possibility of multiple facilities being impacted by the same event, making it more of a catastrophe versus risk event.

"A risk event would be a fire, which generally would impact a single location. Riots might not be quite as widespread as a hurricane, but they can involve multiple locations of a schedule of locations. Going forward underwriters will view the risk of riot differently. Losses and the causes thereof, change how underwriters review accounts and impact what an underwriter is willing to offer and charge for assuming that risk."

In addition to controlling aggregation on this peril, experts also are looking for ways to better predict events. Some say the Gini coefficient, which measures the disparity of income in the country, is helpful. Others say the perceived corruption index is a good benchmark, as displeasure with government is a main contributor to civil commotion.

"You could easily find another half dozen indicators," Reusswig said. "But combining them, and being confident that the countries coming out of this process are those that you actually should watch going forward, that's still an ongoing process. No one has found the golden goose yet to solve this issue." BR

U.S. Homeowners Multiple Peril – 2019 Top Writers

Ranked by 2019 direct premiums written.

($ Thousands)

2019 Rank	2018 Rank	Company / Group	AMB#	2019 Direct Premiums Written	% Change in Premiums	Market Share (%) 2019	Market Share (%) 2018	Market Share (%) 2017	Adjusted Loss Ratios 2019	Adjusted Loss Ratios 2018	Adjusted Loss Ratios 2017	% of Company Premiums
1	1	State Farm Group	000088	$18,698,347	2.9	17.9	18.4	18.6	58.8	61.9	80.9	28.5
2	2	Allstate Ins Group	000008	8,723,238	5.6	8.4	8.4	8.4	52.3	65.6	55.6	24.9
3	4	USAA Group	004080	6,835,804	10.8	6.6	6.2	6.1	68.4	83.4	83.4	29.1
4	3	Liberty Mutual Ins Cos	000060	6,745,864	1.4	6.5	6.7	6.9	51.0	51.3	65.1	18.9
5	5	Farmers Ins Group	000032	5,943,814	2.6	5.7	5.9	6.0	38.7	78.8	77.5	28.8
6	6	Travelers Group	018674	4,240,933	12.6	4.1	3.8	3.8	55.8	69.3	65.1	15.1
7	7	Amer Family Ins Group	000124	4,057,499	10.3	3.9	3.7	3.7	61.8	65.7	66.7	35.2
8	8	Nationwide Group	005987	3,244,683	1.9	3.1	3.2	3.5	57.5	76.8	99.2	17.6
9	9	Chubb INA Group	018498	2,989,474	5.6	2.9	2.9	2.9	62.5	91.9	87.4	12.7
10	11	Auto-Owners Ins Group	004354	1,768,854	7.7	1.7	1.7	1.6	56.2	71.1	68.4	19.7
11	10	Erie Ins Group	004283	1,746,390	4.2	1.7	1.7	1.7	68.5	66.0	53.3	23.3
12	12	Progressive Ins Group	000780	1,646,585	17.4	1.6	1.4	1.2	67.0	66.7	58.8	4.2
13	14	Universal Ins Hldgs Group	018752	1,215,487	8.9	1.2	1.1	1.0	82.3	100.6	67.0	94.0
14	15	MetLife Auto & Home Group	003933	1,112,255	0.9	1.1	1.1	1.2	52.4	58.3	62.6	28.9
15	13	Amer Intl Group	018540	1,104,055	-4.3	1.1	1.2	1.2	86.3	219.0	107.2	7.8
16	16	Hartford Ins Group	000048	951,880	-3.2	0.9	1.0	1.1	44.0	88.1	77.1	7.5
17	17	CSAA Ins Group	018460	946,900	2.5	0.9	0.9	1.0	25.1	164.3	163.5	23.1
18	18	Amica Mutual Group	018522	944,825	3.9	0.9	0.9	0.9	57.3	65.5	74.4	40.5
19	21	United Ins Group	018881	861,089	9.5	0.8	0.8	0.8	67.1	102.4	72.1	66.6
20	19	Auto Club Enterprises Ins Group	018515	850,085	2.7	0.8	0.8	0.8	52.4	48.3	70.8	18.8
21	20	Natl Gen Companies	018863	829,999	2.1	0.8	0.8	0.7	48.4	98.0	77.5	16.6
22	22	Heritage Ins Hldgs Group	018891	802,544	2.4	0.8	0.8	0.8	63.6	70.2	86.8	84.9
23	23	COUNTRY Financial PC Group	000302	734,628	5.1	0.7	0.7	0.7	65.2	60.5	69.1	27.9
24	27	Tokio Marine US PC Group	018733	710,283	18.8	0.7	0.6	0.5	67.7	65.4	59.5	8.1
25	25	Assurant P&C Group	018523	704,971	4.9	0.7	0.7	0.7	38.6	52.2	46.9	8.6
26	24	Auto Club Group	000312	704,659	2.9	0.7	0.7	0.7	65.6	54.5	61.8	24.7
27	26	Hanover Ins Group Prop & Cas Cos	004861	660,162	5.3	0.6	0.6	0.6	53.0	53.1	50.8	13.0
28	28	Cincinnati Ins Cos	004294	625,410	7.7	0.6	0.6	0.6	73.0	74.3	62.5	11.8
29	30	FedNat Ins Group	018925	594,239	6.3	0.6	0.6	0.6	111.3	126.7	81.8	83.6
30	31	Munich-Amer Hldg Corp Cos	018753	587,910	8.2	0.6	0.6	0.6	43.1	70.7	56.8	23.6
31	29	Tower Hill Group	018636	584,048	1.0	0.6	0.6	0.7	98.0	144.4	80.7	86.3
32	33	Mercury Gen Group	004524	581,943	15.0	0.6	0.5	0.5	53.3	103.8	91.3	15.6
33	35	Citizens Property Ins Corporation	011712	520,338	6.2	0.5	0.5	0.5	73.8	75.6	148.8	59.4
34	37	State Auto Ins Cos	000856	494,668	20.2	0.5	0.4	0.4	66.1	54.1	53.4	24.8
35	32	QBE North America Ins Group	005658	462,305	-13.1	0.4	0.5	0.5	61.3	55.1	91.0	11.0
36	34	MAPFRE North America Group	018801	456,684	-6.9	0.4	0.5	0.6	38.5	42.1	105.6	18.2
37	36	Shelter Ins Cos	000598	443,180	4.4	0.4	0.4	0.4	64.0	58.4	66.9	24.5
38	38	TN Farmers Ins Cos	018154	421,883	2.9	0.4	0.4	0.4	56.6	50.8	66.3	30.4
39	40	First Protective Ins Co	012201	355,840	4.9	0.3	0.3	0.3	92.2	162.7	95.3	82.3
40	39	Security First Ins Co	011468	352,908	2.1	0.3	0.4	0.3	87.2	104.5	98.8	81.3
41	41	North Carolina Farm Bureau Ins Group	018279	351,834	6.1	0.3	0.3	0.3	67.7	103.6	55.3	29.3
42	42	Andover Companies Pool	000166	340,093	3.8	0.3	0.3	0.3	50.2	53.4	41.8	58.1
43	50	St. Johns Ins Co, Inc.	012686	332,954	14.3	0.3	0.3	0.3	116.2	132.8	104.9	89.6
44	44	Farm Bureau P&C Group	004233	327,123	2.8	0.3	0.3	0.3	63.6	47.8	78.6	21.1
45	43	Florida Peninsula Group	018790	325,193	0.5	0.3	0.3	0.3	88.5	97.7	115.9	100.0
46	45	Amer Natl Prop & Cas Group	002947	321,230	4.7	0.3	0.3	0.3	60.4	61.4	59.3	19.0
47	49	HCI Ins Group	018848	318,574	8.5	0.3	0.3	0.3	57.6	67.7	90.4	87.6
48	51	NJM Ins Group	003985	311,954	9.3	0.3	0.3	0.3	63.9	64.8	50.3	15.4
49	47	Alfa Ins Group	000106	307,190	2.2	0.3	0.3	0.3	56.3	79.4	65.7	23.1
50	46	Southern Farm Bureau Casualty Group	004237	307,045	2.1	0.3	0.3	0.3	66.1	106.1	69.0	19.3
		Top 50 Writers		**$89,499,853**	**5.0**	**85.8**	**86.2**	**86.5**	**58.4**	**73.5**	**75.5**	**20.7**
		Total U.S. P/C Industry		**$104,266,116**	**5.4**	**100.0**	**100.0**	**100.0**	**58.5**	**72.7**	**74.6**	**14.6**

Note: Data for some companies in this report has been received from the NAIC.
Reflects Grand Total (includes Canada and U.S. Territories).
Source: BESTLINK – State/Line (P/C Lines) - P/C, US; Data as of: September 18, 2020

U.S. Homeowners Multiple Peril - Top Writers by State, Canada and U.S. Territories - 2019

Ranked by 2019 direct premiums written.

($ Thousands)

State	2019 Rank	2018 Rank	No of Cos	Direct Premiums Written	% of Grand Total	Premium % Change	ALR[1]	DDCCE[2]	Market Share Agency Writer[3]	Market Share Direct Writer[4]	Leading Writer	% Market Share	Second Leader	% Market Share
AL	23	23	222	$1,827,420	1.8	4.9	48.0	0.9	26.0	74.0	State Farm Group	27.2	Alfa Ins Group	13.7
AK	51	50	78	170,781	0.2	-0.5	42.3	0.7	9.6	90.4	State Farm Group	32.1	Allstate Ins Group	18.6
AZ	24	25	240	1,795,395	1.7	6.4	56.6	1.1	28.9	71.1	State Farm Group	17.4	Farmers Ins Group	12.1
AR	31	31	197	977,094	0.9	3.8	61.6	0.9	22.9	77.1	State Farm Group	26.3	Farm Bureau Mutual Ins Co of Arkansas	14.0
CA	3	3	227	9,128,100	8.8	9.2	31.2	2.2	31.7	68.3	State Farm Group	17.6	Farmers Ins Group	15.4
CO	12	12	206	2,720,363	2.6	9.4	75.2	0.9	23.6	76.4	State Farm Group	19.5	USAA Group	11.6
CT	26	26	216	1,565,336	1.5	2.6	43.3	1.5	59.5	40.5	Liberty Mutual Ins Cos	10.0	Chubb INA Group	10.0
DE	45	45	183	299,714	0.3	5.9	47.7	0.9	38.9	61.1	State Farm Group	25.0	Liberty Mutual Ins Cos	11.4
DC	50	51	149	171,638	0.2	3.2	43.8	1.3	50.2	49.8	State Farm Group	21.4	Travelers Group	19.9
FL	2	1	250	10,080,722	9.7	4.7	77.2	5.4	82.4	17.6	Universal Ins Hldgs Group	9.8	State Farm Group	6.4
GA	6	7	272	3,576,136	3.4	6.9	56.2	1.2	29.2	70.8	State Farm Group	25.8	Allstate Ins Group	12.4
HI	43	42	96	415,699	0.4	4.2	41.1	1.4	51.4	48.6	State Farm Group	30.6	Heritage Ins Hldgs Group	12.8
ID	42	43	167	424,996	0.4	9.8	58.6	0.9	27.9	72.1	State Farm Group	14.8	Liberty Mutual Ins Cos	14.5
IL	5	5	291	3,911,977	3.8	5.2	82.2	1.4	24.8	75.2	State Farm Group	32.8	Allstate Ins Group	12.0
IN	18	18	246	2,070,585	2.0	4.0	58.0	1.0	35.8	64.2	State Farm Group	24.2	Allstate Ins Group	8.5
IA	33	33	214	851,528	0.8	4.9	55.6	0.8	42.1	57.9	State Farm Group	25.5	Nationwide Group	11.9
KS	28	29	205	1,257,180	1.2	4.3	64.4	0.7	28.0	72.0	State Farm Group	21.0	Amer Family Ins Group	15.3
KY	29	28	208	1,252,972	1.2	3.0	50.3	1.0	26.9	73.2	State Farm Group	23.4	KY Farm Bureau Group	21.5
LA	21	19	208	1,960,741	1.9	2.8	44.0	1.1	40.4	59.7	State Farm Group	26.0	Allstate Ins Group	10.8
ME	39	39	177	450,504	0.4	4.2	37.1	0.9	53.4	46.6	State Farm Group	12.0	Liberty Mutual Ins Cos	11.1
MD	19	20	202	1,962,764	1.9	6.6	63.4	1.2	42.8	57.2	State Farm Group	17.6	USAA Group	12.2
MA	13	13	260	2,570,374	2.5	4.5	36.4	1.5	77.0	23.0	MAPFRE North America Group	13.1	Liberty Mutual Ins Cos	9.8
MI	9	9	192	2,915,283	2.8	2.4	59.5	1.1	41.1	58.9	State Farm Group	15.9	Auto-Owners Ins Group	15.0
MN	15	15	232	2,314,333	2.2	5.8	83.1	1.0	31.8	68.2	State Farm Group	25.2	Amer Family Ins Group	14.9
MS	30	30	183	1,024,524	1.0	3.4	49.2	0.2	26.5	73.5	State Farm Group	26.1	Southern Farm Bureau Casualty Group	15.7
MO	16	16	217	2,237,167	2.1	5.0	54.8	0.9	20.2	79.8	State Farm Group	25.0	Amer Family Ins Group	15.5
MT	44	44	152	374,911	0.4	6.3	140.5	2.4	21.9	78.1	State Farm Group	24.1	Liberty Mutual Ins Cos	16.4
NE	34	34	188	829,246	0.8	7.4	101.7	0.8	34.2	65.8	State Farm Group	23.4	Farmers Mutual Ins Co of Nebraska	11.1
NV	35	35	205	663,329	0.6	6.9	51.8	1.9	25.9	74.1	State Farm Group	19.0	Farmers Ins Group	13.6
NH	41	40	188	437,373	0.4	4.1	45.8	0.9	47.4	52.6	Liberty Mutual Ins Cos	13.9	State Farm Group	9.8
NJ	11	10	262	2,869,137	2.8	3.7	50.1	1.7	41.9	58.1	NJM Ins Group	10.5	State Farm Group	10.3
NM	37	37	179	579,481	0.6	5.9	61.1	1.1	22.8	77.2	State Farm Group	19.8	Farmers Ins Group	17.0
NY	4	4	281	5,630,578	5.4	3.7	49.2	1.9	58.3	41.7	Allstate Ins Group	13.9	State Farm Group	12.9
NC	10	11	229	2,887,386	2.8	6.5	56.7	0.7	45.6	54.4	State Farm Group	16.9	North Carolina Farm Bureau Ins Group	12.2
ND	47	47	162	229,667	0.2	5.1	70.8	0.9	34.8	65.2	State Farm Group	15.1	Amer Family Ins Group	12.3
OH	8	8	285	3,052,963	2.9	2.8	68.4	1.3	47.4	52.6	State Farm Group	20.3	Allstate Ins Group	11.0
OK	25	24	205	1,762,633	1.7	3.3	55.9	1.1	18.0	82.0	State Farm Group	28.0	Farmers Ins Group	16.7
OR	32	32	191	919,570	0.9	5.9	57.0	1.0	21.1	78.9	State Farm Group	21.6	Farmers Ins Group	15.4
PA	7	6	314	3,520,057	3.4	2.8	65.2	2.0	49.3	50.7	State Farm Group	17.3	Erie Ins Group	15.5
RI	40	41	180	440,212	0.4	4.9	43.3	1.3	48.3	51.7	Amica Mutual Group	16.3	Allstate Ins Group	12.1
SC	22	22	248	1,851,547	1.8	4.5	39.5	1.4	46.3	53.7	State Farm Group	20.1	Allstate Ins Group	9.8
SD	46	46	176	278,660	0.3	6.7	67.6	0.6	41.6	58.4	State Farm Group	19.4	Amer Family Ins Group	11.6
TN	17	17	245	2,197,924	2.1	4.6	48.8	1.3	28.0	72.1	State Farm Group	23.5	TN Farmers Ins Cos	19.2
TX	1	2	287	10,163,809	9.7	7.6	66.9	1.6	34.7	65.4	State Farm Group	18.3	Allstate Ins Group	13.3
UT	36	36	178	611,549	0.6	7.6	66.4	1.6	35.2	64.8	State Farm Group	16.6	Farmers Ins Group	11.3
VT	49	49	168	212,610	0.2	3.1	47.2	0.9	60.8	39.2	VT Mutual Group	12.5	Liberty Mutual Ins Cos	11.9
VA	14	14	255	2,493,593	2.4	6.3	54.7	1.0	38.9	61.1	USAA Group	19.1	State Farm Group	17.2
WA	20	21	217	1,962,573	1.9	7.2	57.2	1.7	28.7	71.3	State Farm Group	16.8	Liberty Mutual Ins Cos	13.7
WV	38	38	165	463,619	0.4	1.3	54.9	1.6	48.5	51.5	State Farm Group	25.3	Erie Ins Group	18.9
WI	27	27	252	1,544,682	1.5	4.0	54.9	0.9	44.0	56.0	Amer Family Ins Group	21.6	State Farm Group	16.3
WY	48	48	153	221,978	0.2	5.3	93.7	1.2	20.0	80.0	State Farm Group	21.4	Farmers Ins Group	17.1
Guam	53	53	14	19,256	0.0	2.1	9.8	1.0	95.6	4.4	Chung Kuo Ins Co, Ltd GUB	31.9	Amer Intl Group	24.5
Puerto Rico	52	52	21	93,053	0.1	22.9	9.6	2.8	99.3	0.7	Universal Ins Group of Puerto Rico	57.4	MAPFRE North America Group	30.6
U.S. Virgin Is.	54	54	17	12,150	0.0	-27.6	-100.0	0.5	97.8	2.2	Underwriters at Lloyd's, London (VI)	70.0	Guardian Ins Group	18.1
Canada	57	57	10	54	0.0	0.7	-99.9	-2.9	0.0	100.0	FM Global Group	100.0	Hartford Ins Group	0.0
Other	55	55	31	8,939	0.0	50.7	114.4	-26.3	100.0	0.0	Amer Intl Group	76.0	Chubb INA Group	23.7
N. Mariana Is.	56	56	7	253	0.0	44.6	153.5	-20.0	100.0	0.0	Tokio Marine US PC Group	29.6	First Net Ins Co	28.9
Grand Total			**1,081**	**$104,266,116**	**100.0**	**5.4**	**58.5**	**1.8**	**41.8**	**58.2**	**State Farm Group**	**17.9**	**Allstate Ins Group**	**8.4**

1. ALR: Adjusted loss ratio is direct losses incurred divided by the difference between direct premium earned and dividends paid to policyholder.
2. DDCCE: Direct defense and cost containment expense ratio is the former allocated loss adjustment expense (ALAE) ratio.
3. Insurers that distribute primarily through independent agents.
4. Insurers that distribute primarily through a direct-selling system or an exclusive agency system.
Note: Data for some companies in this report has been received from the NAIC.
Source: BESTLINK – State/Line (P/C Lines) - P/C, US; Data as of: September 18, 2020

On the Front Line

Presumption rules for essential workers and front-line employees with COVID-19 in some states shift the burden of proof to employers, but are they also driving up workers' compensation claims and costs?

by Lori Chordas

AP Photo/John Nacion

As the COVID-19 pandemic rages on, more than 174,400 physicians, nurses and other U.S. health care providers on the front lines of the unprecedented crisis had as of early October been infected by the virus, with 744 dying of the illness, according to the Centers for Disease Control and Prevention.

That's a significant rise from the roughly 62,000 infections and 291 deaths the CDC reported at the end of May.

Other essential workers on the battleground of the outbreak also have been hard hit by COVID. On Oct. 1, e-commerce giant Amazon announced 19,816 employees at Amazon and its Whole Foods subsidiary had tested positive or had been presumed positive for the virus.

The nature of their job puts front-line workers at increased risk of contracting COVID-19. Infectious diseases, however, often are not covered by workers' compensation and are categorized as "ordinary diseases of life." Proving an employee's infection originated in the workplace can be difficult.

To make it easier for front-line workers to receive workers' compensation, some states have expanded coverage to include COVID-19 and removed the burden of proof from employees. Legislatures in those states have passed bills and governors have issued executive orders that

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STANDING AT THE READY: Workers and first responders in New York City were on the front lines of the COVID-19 pandemic that some reports are calling the largest mass fatality incident in the city's modern history.

Key Points

The 911: A rising number of essential workers are claiming to have contracted COVID-19 on the job.

Making a Diagnosis: The advent of presumption laws in some states is shifting the burden from employees to employers to disprove those claims.

A Bitter Pill to Swallow: There are some concerns that state causation presumptions will drive up the number of workers' compensation claims and add a significant financial burden on payers.

presume first responders, health care workers and other essential employees contracted COVID on the job and are entitled to workers' compensation benefits, including lost wages and medical benefits.

In states like Alaska, the presumption is conclusive, leaving employers without any recourse to debate causation.

But in most states, including New Jersey and Minnesota, presumption rules are rebuttable, allowing employers to argue that a COVID-related claim was caused by conditions experienced outside the course of employment.

In California, Gov. Gavin Newsom created a rebuttable presumption through an executive order on May 6. Under his order, if an employee was required to visit the workplace between March 19 and July 5 and was diagnosed with COVID within 14 days of doing so, they were presumed to have contracted the virus on the job and could file a workers' compensation claim.

The California legislature enacted a bill on Aug. 31 that expanded Newsom's order and codified the presumption of compensability of COVID claims for first responders and certain health care workers from July 6 to Jan. 1, 2023.

While proponents of presumptions are singing the praises of state actions, others are concerned that the measures will drive up workers' compensation claims and place a significant financial burden on payers.

In April, the National Council on Compensation Insurance published a white paper that estimated

COVID's impact on the workers' compensation system under various hypothetical scenarios. The paper showed that the potential impact of COVID could climb as high as $81.5 billion.

That amount, according to NCCI, would translate to an additional 254% of workers' compensation payouts due to the virus.

The Workers' Compensation Insurance Rating Bureau of California also has provided its take on projected costs based on a July study of front-line worker claims in the state. The bureau also has provided its take on projected costs, concluding in April that the annual cost of COVID claims by California's essential critical infrastructure employees under a conclusive presumption could range from $2.2 billion to $33.6 billion, "with an approximate midrange estimate of $11.2 billion, which is equal to 61% of the annual estimated cost of the total workers' compensation system prior to the impact of the pandemic," according to an issue brief by the American Academy of Actuaries.

So far, insurers have accepted only a "fairly minor" number of workers' compensation claims stemming from the pandemic and state presumption rules, said Joseph Paduda, a principal for consulting firm Health Strategy Associates.

This year in California, he said, less than 7% of the state's overall workers' compensation costs will be associated with COVID, according to projections by the state research board.

But estimates like those could change, as little is still known about the unprecedented virus that began its wide spread across the U.S. in March.

Threats of a second wave of the pandemic in the coming months, the possibility of reinfection and potential long-term health issues among those infected with COVID could eventually drive up workers' compensation claims, costs and rates.

State of Affairs

Workplaces have been ground zero for the pandemic.

During the first 100 days of the outbreak, more than 11,500 grocery store workers in the U.S. were infected or exposed to the virus, and at least 82 died, according to United Food and Commercial Workers International.

In California, more than 11,090 health care workers in nursing homes and long-term care facilities as of mid-July tested positive and 102 died as a result of COVID, according to data from the state health department. California is one of roughly 17 states that by early October had created a presumption of coverage to varying sectors of employment that removes the requirement that essential workers infected by COVID have to prove that they contracted the illness on the job.

On Sept. 14, New Jersey Gov. Phil Murphy signed into law what many consider the broadest of all state presumptions. Retroactive to March 9, S.B. 2380 creates a rebuttable presumption of compensability for a broad set of COVID-positive essential workers. According to the bill, the presumption can only be refuted by a preponderance of the evidence showing the essential worker was not exposed at their workplace.

Illinois also has a rebuttable presumption of workers' compensation coverage, specifically for first responders or front-line workers who are exposed to or contract COVID. Gov. J.B. Pritzker signed the measure in June after an emergency rule that included similar language was withdrawn by the Illinois Workers' Compensation Commission earlier in the year.

Shifting the Burden

State causation presumptions have become "a real game-changer" for workers' compensation, said University of Wyoming law professor Michael C. Duff.

Rarely in workers' compensation does the burden of proof rest on the shoulders of employers—something Duff calls a challenging task for that cohort.

"Causation with respect to disease is difficult," he said. "When we think about diseases that have historically been covered under workers' compensation or tort law, they are often illnesses like black lung and asbestos among coal miners and ship workers. But along comes COVID, an infectious disease that doesn't look like an occupational disease and is something the general public is at risk of contracting. Workers' comp wasn't designed to cover a disease like COVID that appears to be both occupational and infectious, depending on the circumstances in specific workplaces," he said. "In fact, we don't know quite how to think about it."

States have different standards for refuting workers' claims.

In California, rebuttable evidence can include workers' recent personal travel logs, employees failing to comply with state social distancing mandates and employment records indicating an employee was working from home during the incubation period, Trindl Reeves, chief sales officer at Marsh & McLennan Agency West, said.

"Also employers who see on social media sites like Facebook that an employee with COVID was at the beach or attended a large family gathering prior to testing positive can use that to make the argument against definitive contact at work," she added.

Employers often have 90 days to deny a workers' compensation claim. But California's presumption rule limits that investigation and rebuttal period to 30 days, "adding a burden for employers because by the time they do all their investigation, COVID testing and retesting, it's hard for them to overturn those cases," Reeves said.

Measures like that, however, haven't stopped some employers from attempting to deny workers' claims.

Earlier this year, global meatpacker JBS denied several families' applications for workers' compensation benefits after three employees of its slaughterhouse in Colorado died from COVID infections, according to news reports. The employees were among six workers at the facility with fatal infections.

In denying the claims, JBS said the employees' infections were not work-related. However, according to reports, the family of one worker contends that he had only been to work and church prior to contracting the virus.

In Minnesota, 930 claims involving COVID have been filed by meatpacking employees as of Sept. 11, according to news reports. Of those, 717 claims were rejected and 213 were under review.

Colorado also has seen a large swath of COVID-related claims. However, news reports cite, 69% of the 2,294 workers' compensation claims for the virus were denied as of Sept. 12.

While state laws differ on their rebuttable standards, they also have their own take on the classifications of employees covered by the presumption.

Arkansas, Utah and Minnesota are among those with narrow definitions that limit compensability to first responders and front-line health care workers, while other states such as New Jersey, California and Kentucky currently more broadly define "essential" employees.

Under Kentucky's governor-issued executive order, commercial insurers and self-insurers are required to provide temporary total disability benefits to a wide range of essential workers that include first responders, grocery store employees, correctional officers, military members, domestic violence shelter and rape crisis center employees, child advocacy workers and others, University of Wyoming's Duff said.

He said states also differ on compensability. "Alaska and California appear to offer compensation to all employees who develop the virus," Duff said. Washington state provides benefits to employees during their time of quarantine after exposure, while Kentucky offers temporary total disability benefits to workers removed from work by a physician due to occupational exposure to the virus.

"In short, there is a wide variety of coverage across the country and it may well change depending on whether the virus diminishes or intensifies," he said.

So far insurers have accepted only a "fairly minor" number of workers' compensation claims stemming from the pandemic and state presumption rules.

Joseph Paduda
Health Strategy Associates

State causation presumptions have become "a real game-changer" for workers' compensation.

Michael C. Duff
University of Wyoming College of Law

Feeling the Effects

As insurers, employers and other stakeholders continue to wrap their heads around state presumption rules and the potential impact they may have on costs and rates, many questions still remain unanswered, said Dave Heppen, who chairs the American Academy of Actuaries workers' compensation committee.

"But one thing we know for certain is that one way or another we have new claims that entered into the workers' comp system and that, no doubt, has some impact on costs," he said.

AmTrust Financial Services, the seventh-largest workers' compensation writer based on 2019 direct premiums written, according to BestLink, has not yet pinned a definitive cost on the increasing number of COVID-related workers' compensation claims it received during the height of the pandemic.

By mid-September, the number of those claims had started to "level out a bit," senior vice president of workers' compensation strategy Matt Zender said.

One of the concerns with state presumption rules is that they're "inconsistent with the principles of the workers' compensation system, which provides coverage for workplace injuries, even in the absence of fault by the employer," said Steven Bennett, assistant vice president and counsel for the American Property Casualty Insurance Association's workers' compensation program.

"To require the no-fault workers' compensation system to provide indemnity benefits and medical coverage for pandemic diseases, even without sufficient proof the disease was contracted at the workplace, could threaten the viability of the no-fault system," he said.

Bennett also pointed out "coverage for diseases common to the general public are not included in premium determinations. If presumptions are adopted in certain states, it is critical that the costs of such presumptions be included in the state's rate base."

COVID has had a large hand in the Workers' Compensation Insurance Rating Bureau of California's decision to propose a slight increase in rates next year. In August, the WCIRB submitted its Jan. 1, 2021 pure premium rating filing to the state insurance department, proposing advisory pure premium rates that average $1.56 per $100 of payroll, a 2.6% increase over this year's rates.

While that is only a minimal increase, MMA's Reeves said, "it's big news in California because it's the first workers' compensation recommended rate increase the state has seen in years."

In September, the WCIRB amended its filing, proposing individual advisory pure premium rates by classification to reflect updated information on the frequency of COVID claims by industry sector. In a statement, the bureau said the amounts, while averaging $0.06 per $100 of payroll as in the original filing, range from $0.01 per $100 of payroll for the information industry sector to $0.24 per $100 of payroll for segments of the health care and social assistance industry sectors.

The impact of COVID on total workers' compensation claims remains somewhat unclear. But shuttered businesses, the result of state- and federal-mandated shutdowns, along with the rising number of employees working from home may mean less total workers' compensation claims than there otherwise would have been, Heppen said.

However, one thing that is more certain is that the rising use of telemedicine during the pandemic has brought about some added savings into the sector, Max Koonce, chief claims officer at Sedgwick, told AMBestTV. "For years, telemedicine has been available in the workers' compensation environment, but there just hadn't been a big push from a regulatory or a utilization standpoint," he said.

But since the spread of the virus in March, utilization of telemedicine has increased tenfold and "has become a very viable avenue to help with the continuity of care, and thereby the recovery of the individuals that were in the workers' compensation environment," said Koonce of Sedgwick, a provider of technology-enabled risk, benefits and integrated business solutions.

The Road Ahead

Perhaps not since the events of Sept. 11 has a crisis like the global COVID pandemic forced stakeholders to reevaluate how workers' compensation works and examine potential changes needed to the system, said Jeff Eddinger, senior division executive for NCCI.

"Prior to Sept. 11, no one really thought terrorism was a workers' compensation peril or something workers' comp insurers had to think about," he said.

"But immediately following the event, insurers began to gather data to see where they had insureds in large buildings or near landmarks, and it suddenly made them change the way they thought about how they would mitigate terrorism as a peril. Now COVID is changing the way we look at pandemics and their future place in workers' compensation coverage."

Insurers now are paying close attention to presumptions and how states rules "need to be adhered to in order to make sure that we're taking care of each claim appropriately," AmTrust's Zender said.

"We're also working with employers, perhaps closer than ever, because the fact patterns that will determine the road to compensability are different than what we've historically seen. And we have to look to employers to tell us what controls they had in place to protect their workers," he said.

The industry expects that as more data becomes available it will provide some of those answers.

Organizations like the Workers' Compensation Research Institute hope to be at the forefront of that data collection and "measuring the impact of the disease in terms of the composition of COVID and other kinds of claims," said Dr. John Ruser, CEO of the WCRI. He said one of the concerns going forward is whether COVID will continue impacting claims long into the future.

"During the pandemic, there were delays in some medical services such as elective surgeries," Ruser said. "Some workplace injuries require orthopedic surgery and there was a period of time when those surgeries weren't being performed. Also some injured workers may have found it more difficult to find a primary care physician during the early parts of the pandemic, which also may have resulted in delays in care. So the question now is to what extent does that delay in care, along with potential long-term health effects that COVID patients may experience, result in extended duration of disability or additional claims costs."

While that answer is still anyone's guess, Health Strategy Associates' Paduda remains optimistic.

"I'll be the first to admit that early on I was worried about the impact of this on workers' comp. But so far those concerns haven't panned out," he said.

Paduda expects a "significant drop in premium and payroll exposure will hit insurers, third-party administrators and other payers. This will be essentially problematic for insurers and TPAs serving industries like retail, tourism, hospitality, passenger transportation and others that were shut down during the pandemic."

This year, he anticipates a 20% drop in claims "and probably another 10% decline next year, along with a 20% drop in premium."

As the pandemic continues to unfold, leaving many unanswered questions in its wake, University of Wyoming's Duff said a continuation of the outbreak into the new year could spur the need for some type of workers' compensation federal reform or force states to "start backing off in fear of losing insurers or employers being charged rates they can't afford.

"That's why it's important to get ahead of the crisis now, whenever possible, and project how it might impact the sector going forward," he said.

"Is it unreasonable to think a pandemic like this will never happen again? Probably not," Duff said.

"Does everyone need to find ways to anticipate these events? Definitely," he added. BR

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

Top 50 U.S. Workers' Compensation Insurers

Ranked by 2019 direct premiums written.

2019 Rank	Company Name	2019 Direct Premiums Written ($000)	Market Share (DPW) (%) 2019	2018	2017	Direct Combined Ratio (%) 2019	2018	2017
1	Travelers Group (G)	4,211,529	7.49	7.38	7.48	82.18	81.63	89.28
2	Hartford Insurance Group (G)	3,365,298	5.99	5.83	5.85	87.10	86.00	88.96
3	Zurich Insurance US PC Group (G)	2,640,320	4.70	4.64	5.02	79.04	72.74	80.32
4	Liberty Mutual Insurance Companies (G)	2,447,306	4.35	4.26	4.20	79.18	43.44	98.39
5	Chubb INA Group (G)	2,430,566	4.32	4.27	4.22	60.25	47.57	71.34
6	Berkshire Hathaway Insurance Group (G)	2,311,261	4.11	4.02	3.85	68.47	74.50	74.30
7	AmTrust Group (G)	2,172,219	3.86	4.54	5.02	79.21	81.45	97.12
8	State Insurance Fund WC Fund	1,996,372	3.55	3.89	3.91	89.13	88.10	84.47
9	AF Group (G)	1,744,640	3.10	2.70	2.30	83.03	79.03	82.48
10	American International Group (G)	1,453,686	2.59	2.91	3.02	79.92	99.83	108.21
11	Old Republic Insurance Group (G)	1,409,565	2.51	2.53	2.50	83.04	85.45	93.46
12	Great American P & C Insurance Group (G)	1,312,919	2.34	2.29	2.35	70.00	76.16	78.89
13	W. R. Berkley Insurance Group (G)	1,260,683	2.24	2.35	2.43	77.93	76.21	72.24
14	State Compensation Insurance Fund	1,206,038	2.14	2.31	2.34	112.20	138.06	101.50
15	Texas Mutual Insurance Company	1,069,298	1.90	1.89	1.70	102.75	106.96	102.07
16	ICW Pool (G)	1,040,567	1.85	1.65	1.60	82.67	85.09	84.86
17	Fairfax Financial (USA) Group (G)	852,111	1.52	1.60	1.63	65.18	63.32	64.70
18	CNA Insurance Companies (G)	827,537	1.47	1.38	1.27	68.36	85.25	79.56
19	Starr International Group (G)	699,511	1.24	1.12	1.06	42.68	72.33	83.00
20	Employers Insurance Group (G)	687,426	1.22	1.27	1.24	87.46	81.55	85.52
21	Arch Insurance Group (G)	636,147	1.13	1.00	0.96	83.43	75.59	92.47
22	Pinnacol Assurance	588,500	1.05	1.08	1.07	99.19	94.67	93.14
23	CopperPoint Insurance Group (G)	560,987	1.00	0.93	0.98	95.18	83.55	92.13
24	Markel Corporation Group (G)	551,011	0.98	0.91	0.88	69.68	65.73	68.41
25	Everest Re U.S. Group (G)	550,408	0.98	0.88	0.82	71.55	66.75	67.06
26	Erie Insurance Group (G)	502,146	0.89	0.88	0.81	83.15	60.05	78.36
27	SAIF Corporation	487,643	0.87	0.85	0.86	131.56	89.71	100.18
28	NJM Insurance Group (G)	477,053	0.85	0.90	0.90	93.88	93.10	86.58
29	Sentry Insurance Group (G)	473,822	0.84	0.81	0.80	92.68	101.20	90.11
30	Encova Mutual Insurance Group (G)	452,958	0.81	0.73	0.72	85.72	98.20	102.04
31	MEMIC Group (G)	407,737	0.73	0.69	0.65	108.93	107.09	104.66
32	Amerisure Companies (G)	402,338	0.72	0.74	0.76	99.81	89.26	90.93
33	Hanover Ins Group Prop & Cas Cos (G)	394,539	0.70	0.66	0.67	71.20	72.40	80.27
34	Tokio Marine US PC Group (G)	372,487	0.66	0.62	0.49	88.27	80.16	85.12
35	XL Reinsurance America Group (G)	370,070	0.66	0.59	0.59	79.77	95.74	66.13
36	Nationwide Group (G)	367,491	0.65	0.64	0.73	68.08	91.03	87.79
37	Benchmark Insurance Group (G)	334,928	0.60	0.47	0.41	75.45	76.70	76.22
38	EMC Insurance Companies (G)	334,572	0.60	0.61	0.62	89.22	93.66	79.68
39	Selective Insurance Group (G)	327,330	0.58	0.58	0.59	64.91	62.84	72.75
40	AMERISAFE Insurance Group (G)	325,706	0.58	0.59	0.59	70.09	86.88	83.67
41	Federated Mutual Group (G)	324,182	0.58	0.53	0.50	85.44	88.09	80.43
42	WCF Insurance Group (G)	322,553	0.57	0.50	0.48	103.40	105.57	102.81
43	QBE North America Insurance Group (G)	321,932	0.57	0.60	0.60	84.69	90.00	94.16
44	The Cincinnati Insurance Companies (G)	302,442	0.54	0.55	0.58	80.36	80.90	77.28
45	AU Holding Company Group (G)	284,524	0.51	0.72	0.96	74.16	76.11	82.40
46	Farmers Insurance Group (G)	282,074	0.50	0.58	0.67	82.69	74.16	81.91
47	ProAssurance Group (G)	271,843	0.48	0.49	0.44	88.17	91.21	101.01
48	West Bend Mutual Insurance Company	265,234	0.47	0.47	0.48	75.01	77.64	76.95
49	Builders Mutual Insurance Group (G)	263,842	0.47	0.46	0.42	76.28	63.86	68.97
50	Auto-Owners Insurance Group (G)	261,000	0.46	0.51	0.60	50.95	57.17	56.45
	Selection Total	**46,956,351**	**83.51**	**83.42**	**83.61**	**77.96**	**78.93**	**85.38**
	Total US PC Industry	**56,228,746**	**100.00**	**100.00**	**100.00**	**79.35**	**79.90**	**85.40**

Reflects Grand Total (includes Canada and U.S. Territories).
Source BESTLINK.

Mixed Results

Health insurtechs posted varied outcomes in the first half amid rising premiums and fundraising.

by David Pilla

Three health insurtechs posted net income in the first six months of 2020 amid rapid premium growth and recent fundraising, while one posted a net loss.

Looking at the health insurance market overall, more carriers will be participating in the individual market for 2021, "given the recent announcements of market expansion by several publicly traded companies," said Sally Rosen, senior director, AM Best.

Health insurtechs raised new funds in 2020, including the most recent effort by Bright Health, which raised $500 million in late September.

There is a decline in group enrollment due to the economy and growth in Medicaid, said Rosen. "I would note that health insurtechs are not very active in Medicaid," she said.

"All health insurance companies have had to adapt to a virtual environment and many have increased the use of digital/virtual communication with members," said Rosen. "This change is not expected to go away. While health insurance companies have always competed directly with the insurtech health insurers, the insurtech companies may have less of a differentiating factor in this new operating environment."

"Overall, the health insurance sector reported strong earnings in the first half of 2020," said Rosen.

The following six-month financials are from BestLink information:

Oscar

Oscar Insurance Group reported higher net income of $53.5 million in the first six months of 2020, up from net income of $12.8 million a year ago. Net loss for the full year of 2019 widened to $71.0 million from a net loss of $39.3 million in 2018.

Net premiums earned (NPE) rose to $276.5

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

Health Insurtechs

Select companies listed by six-month net income as of June 30.

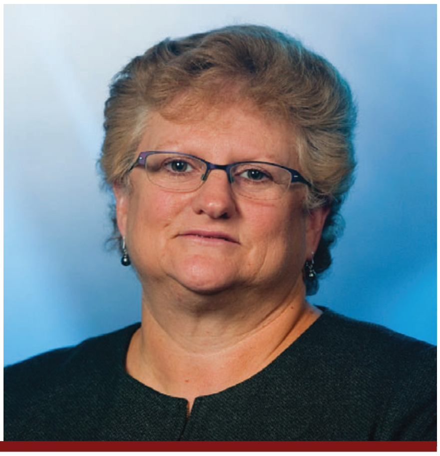
($ millions)

Company	2020	2019	+/-
Oscar Insurance	53.5	12.8	+40.7
Clover Insurance	34.7	-16.3	+51.0
Bright Health Group	6.5	11.7	-5.2
Devoted Health Group	-9.2	-4.9	-4.3

Source: BESTLINK

"The insurtech companies may have less of a differentiating factor in this new [pandemic] operating environment."

Sally Rosen
AM Best



million from $245.6 million. For the full-year 2019, net premiums earned fell to $446.9 million from $647.6 million in 2018.

Oscar Insurance Group has 11 group members. Oscar's biggest market in 2019 was New York, with $263.8 million in direct premiums written; followed by Texas, with $230.8 million; Florida, with $143.4 million; Ohio, with $113.3 million; and Tennessee, with $70.6 million.

Aggregate 2019 DPW for Oscar's insurers is $899.5 million.

In June, Oscar raised $225 million, which it plans

"Oscar entered the pandemic well-positioned to move quickly because of our virtual-first approach to health care."

Meghan V. Joyce
Oscar Health

to use to increase efficiencies while continuing to develop its model, according to Co-founder and Chief Executive Officer Mario Schlosser.

Oscar expanded this year and is available in 15 states, with more than 420,000 members across individual, Medicare Advantage and small group products, it said.

Oscar's results were "above our expectations," Meghan V. Joyce, chief operating officer, Oscar Health, said in an email, "due in part to lower utilization during the COVID-19 pandemic."

Access to and use of telemedicine was "without a doubt, the most relevant development in health tech in 2020," said Joyce. "Oscar entered the pandemic well-positioned to move quickly because of our virtual-first approach to health care."

That means fewer emergency room visits for things that are not emergent and can be handled in a virtual setting, she said. "Looking ahead, we anticipate a blended approach, with as much care as possible delivered virtually because members want convenience and payers want to drive value in the system."

Clover

Clover Insurance Group reported six-month net income of $34.7 million compared with a net loss of $16.3 million a year earlier. For 2019, the company's net loss widened to $57.9 million from a loss of $40.9 million in 2018.

NPE in the first half rose to $334.0 million from $233.1 million year ago. For the full year in 2019, NPE rose to $456.9 million from $290.1 million in 2018.

"We continue to execute on our operational plans and are seeing the impact of those in our financial results for the first half of the year," said Andrew Toy, president and chief technology officer. "Similar to what other insurers are experiencing, we've seen a significant reduction in medical spend due to the lack of elective procedures taking place."

"Our ability to quickly ramp up telehealth capabilities and integrate them into our Clover Assistant platform has allowed us to stay almost at parity with the number of Clover Assistant visits taking place pre-pandemic," said Toy.

Toy noted while all of its Clover Assistant doctors can do video visits, "we've found that many of our members don't have the technology at home to do video—either lacking a smartphone or Wi-Fi." He said Clover is working on a solution to this access issue, "but it's not something we're able to comment on yet."

"It looks like COVID is going to be a significant factor for at least another year," said Toy. He said companies including insurtechs, vendors and providers that are nimble and able to adjust quickly to the new health care environment will thrive.

Clover has two group members: Clover HMO of New Jersey and Clover Insurance Co. The bulk of Clover's business is in New Jersey, where it wrote $449.5 million of its $457.9 million in total DPW in 2019.

In July, Clover said it plans to triple its geographic reach with an expansion that would increase its coverage to 108 counties in eight states pending CMS approval.

At the time Clover said it offers Medicare Advantage plans in 34 counties across seven states with 57,000 members. The planned expansion will bring coverage to 74 additional

"We've seen a significant reduction in medical spend due to the lack of elective procedures taking place."

Andrew Toy
Clover Insurance Group

counties with 69 of the additional counties in Clover's existing markets of Arizona, Georgia, New Jersey, Pennsylvania, South Carolina, Tennessee and Texas, as well as five counties in Mississippi—a new market for the company.

In January Clover said it saw membership growth of 37% in 2019. The company said it began in January 2019 with 39,400 members and in January 2020 it had 54,400 members.

The company reported growth throughout the entire year "with a surge of new sign-ups during the recently ended Medicare annual election period."

In early October Clover Health Investments Corp. agreed to become a public company through a $1.2 billion merger with Social Capital Hedosophia Holdings Corp. III.

Bright Health

Bright Health Insurance Group had six-month net income of $6.5 million, down from net income of $11.7 million a year ago. For the full year in 2019, the company reported a net loss of $42.6 million, compared with a $19.5 million loss in 2018.

The group's NPE rose to $328.4 million in 2020's first half from $118.2 million a year ago. For 2019 Bright Health reported NPE of $209.2 million, up from $117.0 million in 2018.

Minneapolis-based Bright Health's biggest market was Colorado, where the company reported DPW of $125.5 million in 2019. Other markets include Arizona, with DPW of $68.0 million; Tennessee, with DPW of $64.1 million; and Alabama, with DPW of $12.7 million.

Bright Health's total 2019 DPW was $278.5 million.

With its recently announced $500 million funding round, Bright Health said it raised more than $1.5 billion in equity financing since early 2016.

Bright Health said it operates in 43 markets and 13 states, with more than $1.2 billion in annual net revenue.

In June, Bright Health Plan announced details of a 2021 expansion, including Medicare Advantage, individual and family plans in six new markets in Florida, North Carolina and Illinois. For the first time, they will also offer employer-sponsored plans in certain markets, subject to final regulatory approval, the company said at the time.

Devoted Health

Devoted Health Group had a widened six-month net loss of $9.2 million from a loss of $4.9 million in the same period a year ago. For the full year 2019, the net loss widened to $27.4 million from a loss of $1.0 million.

NPE for the six months rose to $108.4 million from $18.6 million a year earlier. For 2019, NPE was $45.2 million compared with no premiums in 2018.

All of Devoted's $45.6 million in 2019 DPW were in Florida.

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 four group members: Devoted Health Insurance Co., Devoted Health Plan of Florida, Devoted Health Plan of Ohio and Devoted Health Plan of Texas. BR

Effective Governance

Property/casualty reserving is one of the top considerations for boards and audit committees, but often technical complexity prevents enough depth of understanding and inhibits effective oversight. Senior and seasoned reserving professionals offer a "how-to guide" for directors.

by Brian Z. Brown, Michael D. Price, Patricia A. Teufel and Steve Wilson

Around the turn of the century, many property/casualty insurance companies (known as general or nonlife insurers in some countries) experienced major reserve deficits. Some of these P/C companies failed due to reserve deficiencies, a significant percentage narrowly escaped insolvency, and many others suffered damaging impacts to earnings. As a consequence, governments tightened regulatory standards and individual companies improved

Key Points

Status Report: Beginning in 2000 many P/C insurers experienced deficits in their reserves. As a result, regulations were tightened and individual companies improved internal governance of reserving and underwriting functions.

A Change Is Going to Come: Warning signs indicate that problems are re-emerging—or may already be embedded in reserves.

Action Items: Audit committee members must learn how to challenge actuaries and management to ensure that risks are being identified, clearly reported and addressed to avoid reserve deficits.

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internal governance of reserving and underwriting functions. As a result of these changes and improvements, and because of favorable external factors such as lower inflation, tort reform and no newly emerging mass torts, the industry has been largely free of major reserve problems since 2010.

More recently, however, warning signs indicate that problems are re-emerging—or may already be embedded in reserves.

Companies, regulators, rating agencies, and equity analysts have begun highlighting specific coverages that are generating significant losses, such as directors and officers and commercial auto insurance. While improvements in governance and regulatory oversight over the last two decades have equipped audit committees with a greater understanding of what the risks are to reserves, there is little information available regarding how audit committee members should challenge actuaries and management to ensure that risks are being identified, clearly reported and addressed.

Currently, while issues relating to COVID-19 dominate many agendas, there are potential reserve challenges in the market not related to the virus.

The pandemic makes it even more important for boards to be well-versed in reserving issues. Many insurance coverages will likely be affected by the impacts of the virus: surety, trade credit, event cancellation, business interruption (in some jurisdictions), mortgage guarantee, D&O, medical professional liability, and workers' compensation, among others. Also, for many coverages, premium is determined based on sales or payroll. Affected industries, such as the hospitality industry, will generate significantly lower premium and the impact on auto premium is already seen to be significant.

Given this backdrop, it is essential that boards are confident that their practices and processes for their oversight responsibilities of P/C reserves are fully effective, and, if not, address any issues now.

> The pandemic makes it even more important for boards to be well-versed in reserving issues. Many insurance coverages likely will be affected by the impacts of the virus, including surety, trade credit, event cancellation, business interruption and directors and officers.

Although there have been many recent legislative changes worldwide aimed at strengthening financial institutions, specifically including the insurance industry, these existing regulations cannot take the place of effective board oversight.

Since estimating reserves is somewhat of an art, management may pressure the actuary to arrive at a lower reserve amount as a higher amount may negatively effect management's compensation, stock price and the company's financial rating. Many actuaries are not sufficiently trained in dealing with confrontation and therefore the audit committee needs to be aware of this situation.

In our combined experience, it is rare that a major deficiency results mainly from a technical failing, or from a failure to follow existing regulations. Invariably, the main drivers are behavioral, reflecting general human instincts as well as the organization's own incentives and culture.

How Reserve Deficiencies Develop

The single most important feature of reserve deficiencies is that they usually originate years before anyone recognizes them and, in some cases, issues may not be reported through to senior management in a timely fashion. The resulting deficiency crystallizes as a financial impact only when the actuary recognizes that the held reserves fall short of the latest estimate of the claim liabilities, and management accordingly books a reserve increase. Deficiencies are sometimes recognized slowly as claims data emerges and small adjustments to the financial statements are made along the way. Other times a deficiency is recognized abruptly in recognition of a sudden change in external conditions, or from a newfound understanding of internal operational shortcomings or even a breakdown in the actuarial estimation process itself. It is these latter scenarios that will tend to be a greater problem as the deficiency can be both a surprise and have a large financial impact.

It is also important to note that the actuary's revised view of needed reserves relates to past liabilities (i.e., liabilities on insurance contracts' exposure prior to the balance sheet date). However, any change in the expected profitability of business written in the past will raise questions on the pricing of contracts currently being issued, as the assumptions used in the pricing of the current generation of business are a function of the prior years' profitability.

In the case that a significant reserve issue arises, management becomes concerned about the impact to earnings, to the balance sheet, and perhaps even to the capital levels and solvency of the company. A comprehensive communication plan for shareholders, analysts and other stakeholders is often put in place hurriedly as it is recognized that poor communication will exacerbate the issue by further damaging credibility of the firm and potentially the executive management team.

Shareholders, analysts, and others will seek assurances that the problem has been addressed and that it will not recur, drawing attention to the reserving process. Questions as to why the problem happened will focus on how foreseeable the issue was and whether errors have been made in the reserving process.

An effective governance system recognizes that

Why Reserving Issues Matter

Unpaid claim liabilities, or reserves, comprise the largest individual liability line item on the balance sheet for most property/casualty insurance companies.

For the total U.S. insurance market as of year-end 2018, booked reserves were 87% of surplus and nearly 11 times net income. For companies writing long-tailed lines of business such as workers' compensation, where claims emerge slowly and take years to pay, reserve leverage is even greater. For 53 specialty companies predominantly writing workers' compensation, reserves were 147% of surplus and close to 18 times net income. These multiples mean that relatively small changes in reserve estimates have a dramatic impact on surplus and net income and can transform a net gain into a net loss.

The COVID-19 pandemic will further strain the insurance industry—while not directly impacting prior year reserves, its impact likely will be significant and unpredictable.

The P/C reserve deficits of the early 2000s were widespread. We reviewed reserve development of the top 30 U.S. insurance companies (based on net written premium volume) over a 10-year period starting at year-end 2002. By 2012, reserves for this group of companies were 28.6% deficient, relative to the positions held as of year-end 2002. This deficiency represented 31.6% of year-end 2002 surplus and was 5.0 times 2002 net income. Six of these companies, or 20%, realized adverse development on 2002 and prior claims in excess of their posted year-end 2002 surplus. While these results reflect U.S. company experience, these trends were evident in the worldwide P/C industry, with a number of high-profile non-U.S. companies needing to strengthen (increase) their reserves and the failure of the leading Australian P/C insurer, HIH.

We foresee a new round of reserving issues emerging. In November 2019, the U.K.'s Prudential Regulation Authority (PRA) notified CEOs and chief actuaries of U.K. P/C insurers that reserve adequacy and the associated governance and controls would be a priority area of regulatory focus. The PRA highlighted that "some firms have reported material reserve strengthening and we see increasing areas of emerging risk, particularly in some U.S. casualty lines…." Similarly, several U.S. insurers have recently reported sizable reserve strengthening. The COVID-19 pandemic will further strain the insurance industry—while not directly impacting prior year reserves, its impact likely will be significant and unpredictable—but even before the pandemic the market was showing signs of reserve deficiencies to come.

a reserve deficiency is merely the last stage of an issue that has been developing for some time—and in the case of a material "surprise," the problems may have been building over several years. Experienced insurance company management will be familiar with the root causes (and will generally take early actions should a problem start to emerge) and so we aim to provide audit committee members with insight into these root causes and to know what questions to ask.

Governance Over the Reserving Process

All directors encounter three fundamental philosophical challenges in their work with the companies they oversee:

- Knowledge—What can we know and how can we know it?
- Conduct—How should we as directors evaluate the information?
- Governance—How should the board exercise its authority in the best interests of shareholders?

The matter of reserving for P/C insurance and reinsurance companies engages board members in each of these areas. For example, knowledge of the company's ultimate liability for unpaid claims is inherently uncertain and must be estimated. Each director must determine how to engage with their colleagues on the board, members of management, and external parties central to the reserving process. Ultimately, the board or its audit committee must ensure that the overall framework employed for establishing and booking reserve estimates is adequate.

Board members cannot and are not expected to perform the function of actuaries. However, they can structure meetings, pose robust questions, and ask for independent analysis in a manner that creates an appropriate process for their oversight of the loss reserving process.

Meeting structure is essential to good governance. How often to meet, what subjects to discuss, how much time to allocate to a given subject, whom to involve, who will present, and how to follow up are indispensable areas in which the board can promote a culture of openness and accountability and facilitate an honest appraisal of a company's reserves for unpaid claims. Attention to these basic details will go a long way to ensure an effective and robust process.

Typically, the audit committee and the board should review reserves on a quarterly basis corresponding with the financial reporting cycle. Reserve estimates should be the exclusive topic of regularly scheduled audit committee meetings (usually quarterly) to avoid the risk that other potentially urgent quarterly reporting matters will crowd out the reserve discussion. Regular invitees should include the chief financial officer, chief actuary, lead reserving actuary, controller, general counsel, head of internal audit, and lead partner of the firm's external auditor. At least once a year, and more often if issues emerge, the company's chief executive officer, head of claims, and the independent auditor's actuarial specialist should attend. The involvement of this last group helps to ensure that matters discussed are widely known throughout the organization and are understood at the highest levels.

Periodically, directors should meet in executive session with the chief actuary to assess whether an acceptable level of resources has been made available. Resources broadly include adequate time in which to prepare actuarial analyses, qualified and experienced professional staff, computing technology, access to data and a healthy working environment. During these executive sessions, directors should also probe whether actuarial recommendations are free from any undue influence. Informal interactions between independent directors and senior executive officers through off-site lunches or dinners can touch on these topics as well.

Many new directors and company executives may be unfamiliar with the loss reserving process and the arcane language associated with it. Accordingly, companies should hold periodic education sessions to familiarize participants with the basic data concepts and methods routinely employed in actuarial work. It is ultimately incumbent on individual directors to understand the key assumptions relied upon to develop actuarial estimates and the sensitivity of the result to changes in the assumptions.

The company should provide a standard reserving package of information to the directors at each of the quarterly reserve meetings. This should be the basis of the chief actuary's presentation and the consequent discussion.

Standard Reserving Package

We recommend that the standard reserving package at each quarterly meeting for directors generally include the following types of information:

- Reserve projections by class of business.
- Reserves carried by class of business.
- Ranges of reasonable estimates by class of business.
- Actual reported paid and incurred losses in the recent period relative to expectations.
- Assessment of projections for the current accident period separate from prior periods.
- Current projections of ultimate loss vs. initial selections.
- Assessment of catastrophe losses and individual large losses.
- Trends in claim frequency and severity by class of business.
- Ratios of paid claims to incurred claims by accident year or underwriting year.
- Diagnostics such as loss ratios by accident period, average ultimate claim size, average outstanding claim size, and claim frequency per unit of exposure.
- Tracking of reserve positions of peer and competitor companies by class of business.
- Reference to overall industry analyses published by rating agencies, equity analysts,

How Actuaries and Companies Establish Reserves

Establishing reserves for unpaid claim liabilities is both a technical and a business process requiring professional and commercial judgment. Financial statements record insurance liabilities as a point estimate of a certain amount. However, actuaries typically calculate a range of reasonable estimates, and management selects a point estimate from somewhere within that range. Over time, actual results will almost always differ from the exact point estimate, and may sometimes fall outside the range of estimates that was considered reasonable at the time.

The inherent uncertainty and variability of reserves stems from potentially significant time lags between when insurance agents write contracts, when claims are filed, and when the insurance company makes its final payment on each claim. In some lines of business, referred to as short-tailed, claims are filed, adjusted, and paid quickly. Think of an automobile loss that involves minimal physical damage and no bodily injury—a straightforward process, which increasingly is largely automated. In other lines, referred to as long-tailed, years may pass from the occurrence of an insured event, to the filing of a claim, to the settlement of the claim. Think of a complex commercial insolvency directors and officers case involving multiple parties and protracted litigation. As a simple rule, it is usually easier to estimate reserves for short-tailed lines and more difficult to estimate reserves for longer tailed lines.

In the reserving process, actuaries do not typically study the underlying individual insurance policies or set case reserves on individual claims (claim adjusters set individual case reserves). Instead, reserving actuaries deal with aggregate company and industrywide data and use statistical projection techniques to estimate future total liabilities for each line of business. They consider various features, such as whether the data shows changes in the severity of claims (whether claims are costing more to settle than anticipated) or whether the data shows changes in the frequency of claims (whether the number of claims being filed differs from the number anticipated). Key assessments are the numbers and amounts of claims that have not yet been reported to the company—the so called incurred but not reported or IBNR claims.

Reserving actuaries deal with aggregate company and industrywide data and use statistical projection techniques to estimate future total liabilities for each line of business.

brokerage firms, and consulting firms.

- Comparisons of reserve position to those estimated by third parties such as the company's auditors or external consultants.
- Rationale for any significant changes in key assumptions underlying estimates.
- A watch list of potential problem areas or vulnerabilities in the reserve position.

The analysis for each class of business should be updated quarterly, with an in-depth review being undertaken at least annually.

While the above will provide the needed transparency, it is also incumbent on the actuary to provide information in a streamlined way, supported, for example, by additional focused exhibits to highlight key points. Creating a balance between the needed transparency and highlighting key points can be challenging for some actuaries who are prone to operate in the detail. One solution

Questions to Ask

Industry Cycles

One topic that we encourage directors and officers to ask the actuary about is the impact of industry cycles on reserve adequacy and application of standard actuarial techniques. Sample questions to ask the actuary on this topic include:

- Where do you believe we are in the underwriting cycle?
- What evidence supports/contradicts your position?
- Have you made any specific adjustments to your methodology to account for cycle effects, for example to loss development factors or a priori loss ratios? Loss development factors are a core assumption in the methods that use claims triangulations; a priori loss ratios are those assumed in the original pricing of the business. It may be instructive for the actuary to offer a "teaching" session to explain, at a high level, how methods work.
- For the current period, what is driving the actual vs. expected differences and how have you modified your estimates to account for this in the future?
- Do your methods rely on rate indices?
- How rigorously do you track rate changes?
- How is inflation in loss costs incorporated into rate calculations?
- Do you monitor the migration of business between standard and nonstandard markets?
- Does the quality of your data depend on market cycles?
- Does your opinion on where the market is going influence your judgmental selections?

Pressure

Alongside the technical, a key topic that officers and directors should explore is whether the actuary has felt pressured to change or slant any numbers. For example, they could ask:

- Do you feel you have an appropriate level of professional freedom to conduct your work?
- Are you free to speak with leaders throughout the organization regarding the business written and claims filed?
- Do you have unfettered access to claims and other data necessary for your work?
- Are you comfortable sharing bad news with senior management?
- Have you ever been asked or encouraged to change your opinion?
- Do you have adequate resources to conduct your work?
- Are you routinely apprised of company developments that may have a bearing on the reserving process, especially developments that might increase reserves?
- Is the reserving function sufficiently independent from the pricing function?
- Does the actuarial function suffer high employee turnover?
- Do you have difficulty recruiting new staff?

Cognitive Bias

Directors and officers also should try to discover whether cognitive bias may be influencing the actuaries' views. They could ask, for example:

(Continued on page 58)

to this is for directors to receive a summarized subset of the above information on a one-page dashboard that is designed to highlight changes from quarter to quarter. Having the chief actuary design and produce such a dashboard for the board is in itself a valuable exercise. Second, we recommend that directors be encouraged at these meetings to ask robust questions, explore matters and draw attention to areas of concern. Well-placed questions and responses can lead participants to better understand the issues presented, heighten awareness of vulnerabilities, identify areas for improvement, and allow management to align future activities and analysis accordingly. We would, however, avoid overly prescriptive mandates regarding how an analysis should be carried out,

Questions to Ask

(Continued from page 57)

- Are you familiar with the literature covering cognitive bias in decision-making?
- What steps do you and your staff take to combat cognitive bias?
- Do you have a peer review process in place?
- Do you track your estimation performance over time?
- Do you benchmark your results against external information?
- How quickly do you respond if incoming claims data is inconsistent with your prior selections?
- How comfortable are you with changes to key assumptions?

Directors and officers should also seek to uncover information about the effectiveness of communication by asking the actuary, for example:

• Are you routinely in contact with the heads of business units, claims, and risk management?

• Do you have routine involvement with the chief financial officer, chief risk officer, chief executive officer, and general counsel?

- Are your meetings with other company officials formal or informal?
- How frequently do you meet?
- Are meetings documented?
- Do you believe that other officers and directors understand the importance of the loss reserve estimate to the health of the company?
- Do you believe that other officers and directors understand how actuarial estimates are used?
- Do you believe that other officers and directors understand the implications of reserve estimates for capital adequacy, capital allocation, and pricing of new and renewal business?
- Does your function have a clear statement of purpose?
- Are you directly involved in the company's disclosure committees?
- Do you have contact with equity analysts that cover the company?
- Are you routinely involved in reviewing and commenting on the company's regulatory filings?
- Do you routinely set forth the rationale for any changes in estimates?
- Have you been asked to change how your work is documented?
- Do you regularly attend industry forums to learn about trends and new developments?

Loss Reserve Estimates

Another topic that might prove illuminating is the uncertainty of loss reserve estimates. Directors and officers should feel comfortable asking the actuary to explain:

- How do you determine your range of reasonable estimates?
- How does the range of reasonable estimates compare with the range of potential outcomes?
- How do these ranges compare with the reserves output from the company's economic capital model?
- What would the external environment have to look like to observe an outcome at the extreme ends of these ranges?
- Do you rely on stochastic methods or simple judgment when establishing ranges?

preferring to let the professionals exercise their judgment, informed by the knowledge of what matters to the directors as revealed by the questions they ask.

By following these simple suggestions, the loss reserving process may be rendered comprehensible, even for directors who are initially unfamiliar with the process. Through a series of well-planned meetings focused on constructive engagement with the company's accounting, finance, and actuarial staff, and aided by independent analysis, directors can become well-equipped to provide effective oversight of the loss reserving process and better fulfill their fiduciary responsibilities to the company's shareholders. BR

- Have there been any large losses or a jump in frequency of losses from an unexpected or unusual source?

Data Quality

Directors and officers also should examine whether the actuary is comfortable with the company's data, as reliable loss reserve estimates depend on quality data. They could ask, for example:

- Is the company's data quality sufficient for your work?
- Is the company's data fully credible or do you rely on external supplements?
- How do you determine reserving classes?
- Are there significant manual processes involved in obtaining and segmenting data?
- Are any segments of the business in run-off?
- Have there been any changes in case reserving or claim settlement practices?
- Are any of the case reserves set by third parties?
- Are there new classes of business being written where there is little/no claims data on which to base the estimates?

Unpaid Claim Liability Estimate

Finally, we recommend that the directors and officers ask questions to make sure they fully understand the relationship between the company's booked reserves and the actuary's central estimate of unpaid claim liabilities, by asking the actuary questions like:

- How is your estimate of unpaid claim liabilities communicated, i.e., is it a range, a central estimate, etc.?
- Where do the carried reserves fall in your range of reasonable estimates?
- Is any difference between management's best estimate and the actuarial central estimate explained and well-documented?
- Does the difference, if any, change materially over time?

Directors need not rely on their meeting format and personal inquiries alone to assess the reserve process. They also can ask the internal auditor to evaluate and report on the operational practices of the actuarial function. Likewise, external auditors will naturally examine the company's actuarial process and controls and may employ actuarial specialists to provide a second opinion on the sufficiency of the company's reserves for unpaid claim liabilities.

The directors also can ask third-party actuarial consultants, or the auditor's actuary, to provide an independent estimate of the reserves. These independent reviews provide perspective beyond what may be achieved through reliance on the company's management and actuarial staff alone. In particular, asking the third-party actuary to describe the different assumptions driving any material differences in estimates can provide the board with insight into the company's actuarial bias. For example, are the differences caused by different development patterns, different expectations for the more recent years, or by the choice of which methods are producing the most reliable answers.

Security Blanket

Defending technology systems against cyberattacks requires comprehensive risk management and insurance coverage.

by Mike Convertino and John Soughan

Independent thinking often earns praise, while independent operations can cause problems. Siloed functions can create gaps that may leave organizations vulnerable to a litany of problems.

One high stakes example is the current piecemeal approach to cybersecurity and risk management. Too often, companies haven't asked their security team to identify the residual risks that remain after security measures are implemented.

By not asking the necessary follow-up questions, they may needlessly insure against risks that are well defended, or they may miss unaddressed risks and vulnerabilities that may not be covered by their insurance program. For example, chief information security officers and IT departments may employ firewalls and breach monitoring systems, but not train users against social engineering. The chief risk officer and others buying insurance may not know the true risk exposure and fail to insure against the threat of business email compromise. The result is the company has bought insurance, but not covered its actual risk.

To make organizations more resilient to cyber events, a comprehensive approach to cybersecurity risk management is essential—a thorough and continuous process to improve how a company assesses, prevents, protects, responds and recovers from cybersecurity threats and events. Breaches happen even in companies with superior IT and security functions. Because breaches are inevitable, cyber insurance is essential to a company's ability to respond to and recover from incidents. Yet, cyber insurance is often an afterthought.

The most effective way to address the residual risk after implementation of competent cybersecurity is to fully integrate robust cyber

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Covertino

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insurance into a company's cybersecurity risk management schema. Organizations must do more than coordinate these critical functions; they should examine how cyber insurance can directly compensate for inherent vulnerabilities to prevent, protect, respond and recover from events. By failing to fully integrate cyber insurance into a comprehensive program of cybersecurity risk management, companies are significantly increasing their downside risk. Data and experience show it's essential that these functions collaborate and complement each other to drive an organization's resilience.

The number of organizations experiencing cyber incidents continues to grow, particularly among small and midsize businesses. Companies spend more than ever on cybersecurity but aren't more secure. They need help mitigating cyberrisks, and the insurance industry has the experience, tools and methodology developed over many years and many lines of business to engineer risk, provide loss control, and ultimately reduce the total cost of risk for their insureds.

Key Points

The Problem: Too often cyber insurance coverage is purchased by companies without understanding their true cyberrisk exposures that leave them vulnerable to uncovered losses.

Necessary Steps: To make organizations more resilient to cyber events, a comprehensive approach to cybersecurity risk management is essential, involving a thorough and continuous process to improve how a company assesses, prevents, protects, responds, and recovers from cybersecurity threats and attacks.

The Solution: Insurers must close the gap between cybersecurity and insurance, thus making their insureds' coverage more cohesive and resilient.

Insurers see a huge growth opportunity in selling cyber policies, yet they worry about taking on too much risk as cyber threats continue to proliferate. Because of the gap between cybersecurity and cyber insurance, cyber policies tend to come with exclusions and sublimits around areas of particular concern to insurers due to recent large losses. However, insurers have the incentive and the opportunity to help companies reduce risk by improving their cyber programs. Insured companies are not only open to that potential risk reduction, they want it. In a recent survey conducted on behalf of Resilience, 90% of chief information security officers said they want and are willing to purchase cybersecurity tools from their cyber insurance provider. Moreover, they said their top cybersecurity budget priorities are cyber tools and new equipment.

Benefits

Policyholders and insurers want similar outcomes, protection against cyber threats and reduced loss costs. Closing the gap between cybersecurity and insurance, and making organizations more cohesive and resilient, yields several benefits:

Businesses run better. Improving cyberrisk management practices and integrating them with cybersecurity frees organizations to pursue growth opportunities in stride, instead of taking halting steps because of vulnerabilities in their business ecosystems.

Losses are reduced. An uncovered cyber claim means an organization must bear the loss on its own. Expenses relating to cyber incidents, with or without data breach, continue to rise. Unexpected expenses are challenging for any organization, so cyber insurance that mitigates, prevents or pays for a loss is even more valuable.

The insurance industry should rethink how it builds cyber policies. With tools to better understand and monitor exposures, insurers can augment cybersecurity services with coverage tailored to a company's specific risk profile.

Trust grows. Disputes on whether a cyber incident is covered can permanently taint, if not destroy, an organization's relationship with its insurer. That experience in turn can influence how organizations view other insurers, creating a vicious cycle. On the other hand, a close partnership whereby insurers make their customers stronger builds trust.

Cyber insurance is perceived as having greater value. When cyber insurance claim disputes arise, observers may question whether the coverage is worth buying. If the product doesn't respond when and in the way policyholders expect it to, what was the premium actually purchasing? Closing the gap between cybersecurity and risk management enables insurers to enhance the value of cyber insurance by ensuring its reliability to businesses.

Closing the Gap

Improve threat assessment. Traditionally, insurers have assessed risk by looking at historical data. That makes sense where risks change little over time. For example, physical damage to a car or a building fire a decade ago won't look much different a decade from now. Not so with cyberrisks, which continuously evolve as the world becomes more connected and reliant on digital data and hackers invent new methods of attack. Insurers need new ways of understanding, quantifying, and assessing cyber threats.

Embrace tools that enable dynamic risk evaluation. Cybersecurity technology keeps innovating, offering new methods of monitoring and measuring defense postures. It's now possible to examine cyber exposures in real time and benchmark them for specific industries.

Align coverages to customers' actual exposures. The insurance industry should rethink how it builds cyber policies. With tools to better understand and monitor exposures, insurers can augment cybersecurity services with coverage tailored to a company's specific risk profile. This approach can supply coverages and manage cyberrisks where organizations most need them.

Integrate cybersecurity into underwriting. An insurer that can work across the continuum, from risk assessment through to recovery, and that makes organizations more resilient to cyber threats, is a critical business partner.

Insurers by definition are in business for the long haul. They can offer meaningful protection and coverage for almost any risk if they have confidence that they can price the risk appropriately. Bringing together cyber security and insurance will lead to sustainable risk pricing, mutual trust and long-term resilience. BR

A Crop of Problems

AM Best: Storms, floods, fires drive up losses for U.S. crop insurers.

by John Weber

Connor Brach, financial analyst, and David Blades, associate director, industry research and criteria, both of AM Best, said insurers that write multiperil crop coverage are experiencing successive years of extraordinary losses.

Crop insurers endured a difficult year in 2019, and 2020 so far has had a pile-on effect. Blades and Brach discuss this line of business, the subject of a Best's Market Segment Report, *More Hurdles for Crop Insurers in 2020 Following a Poor 2019*.

Following is an edited transcript of the interview.

The report notes 2019 was the worst year for crop insurers in a decade. What were the reasons for those results?

Brach: Multiperil crop insurers suffered losses in 2019 due to unfavorable weather conditions. Heavy rainfall and historic flooding across the Corn Belt led to a record for the number of prevented planting claims.

According to the U.S. Department of Agriculture's Risk Management Agency, there were 72,000 losses due to excessive moisture conditions, which resulted in over $6 billion of indemnity payments to farmers for the year. On the private product side, crop hail writers struggled as well due to significant frost and hail activity during the growing season, as well as inadequate pricing.

Have these challenges been exacerbated in 2020, given the pandemic and weather events?

Blades: No question, the challenge has definitely been exacerbated for MPCI companies. Weather events have definitely affected the 2020 results so far. The early August derecho that passed through Iowa, specifically, caused extensive damage in that region, with nearly one-third of the crops being destroyed or damaged to some extent.

The storm was concentrated in a 45-mile-wide region of the state to the west of Des Moines, going out toward the Quad Cities. While the impacted area included areas containing both soybeans and corn, the corn crops definitely seemed to suffer more damage, so that the insurers of crops in that area who were more concentrated in corn seemed to have been impacted the most.

From what we understand from speaking with some rated MPCI insurers, the way that the storms hit the crops, some of the stalks were broken off at the root, while others were simply laying over. There were some differences in terms of the extent of the damage.

All this added to the challenge of calculating the ultimate yield losses for the year. Again, we're going to continue looking at that and looking at the

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

> "The early August derecho that passed through Iowa, specifically, caused extensive damage in that region, with nearly one-third of the crops being destroyed or damaged to some extent."
>
> **David Blades**
> AM Best

information we get from those companies. Based on the way the MPCI program works, the majority of the losses are expected to be retained by the approved insurance providers as per the 2020 standard reinsurance agreement.

Those providers with the largest percentage share of their respective MPCI book in Iowa will probably be hit the hardest though. Although windstorm events are common in Iowa, this one was particularly severe.

You [had] Hurricane Laura make landfall on Aug. 27. When all is said and done, it's expected that the damage to crops will be extensive in the states of Louisiana and Arkansas. Excessive moisture there due to the considerable rainfall that was associated with that storm created significant challenges to rice and corn farmers, specifically.

Crops that were damaged or that were not fully matured by the time that the hurricane hit are the ones that could lead to the sizable losses. You also have the ongoing wildfire activity in California, in the Pacific Northwest region, that posed a threat to crop hail insurance writers, specifically from the standpoint of crop harvest.

In particular, the wine industry, as you know, in that area is acutely impacted and is at significant risk, as basically smoking ash hangs or lingers over the grapes. Similar to the situation with Hurricane Laura, it's too soon to be able to estimate potential insurance damage with any clarity. Given the severity of the wildfires, the losses could be extensive.

Now, the bottom line is that the recent catastrophic weather events are complicated. The AM Best overall outlook for the remainder of 2020, prior to the weather events, was the expectation that 2020 would represent some improvement over 2019.

We'll wait until the year fully plays out, see how much profitability of crop insurance is compromised by the adverse weather activity and commodity price volatility. Again, the expectation is that they will have a meaningful impact.

Finally, the COVID-19 pandemic also impacted the MPCI market, as demand for products initially increased following the onset of the pandemic, as consumers rushed out to the stores and bought out products.

Subsequently, on the flip side, the decrease in demand from restaurants, from universities, from hotels was very dramatic. The decline in driving associated with shelter-in-place orders has decreased the demand for ethanol particularly, which has led to a loss in demand for corn.

As we point out in the report, approximately 38% of the corn that's produced in the U.S. is used in ethanol. Similarly, what we'll see in the losses, it will play out over time. It's something that's definitely had a meaningful impact on the 2020 crop results.

Are there government backstops to help insurers in these difficult times?

Brach: The multiperil crop insurance market is unique in that it's a government-created program that's being delivered by the private sector, with the risk being shared by both parties. The government provides support primarily through subsidies and reinsurance, as outlined in what's called the standard reinsurance agreement with the approved insurance providers.

Premium subsidies cover a majority of the approximately $10 billion in premium. In addition, the government also provides administrative and operating expense subsidies to insurers, which helped cover the cost of delivering the program to the tune of $1.6 billion in 2019. The SRA, the standard reinsurance agreement, also grants crop insurers the ability to cede policies to either the commercial or assigned risk funds in each state with varying degrees of reinsurance protection available, depending on the fund designation.

To what extent do federal trade deals filter through and impact insurers?

Blades: To answer that, we can look at the trade wars that the U.S. has had with China, specifically, in both 2018 and 2019. Those disagreements had an adverse impact on farmers. The U.S. raised its duty tax on goods from China in the summer of 2018.

China retaliated by imposing a 25% retaliatory tax on the U.S. agricultural products, such as soybean, wheat, corn, and other dairy products that were sold to private Chinese companies. The result was that some of these companies started to look to other countries for their soybean purchases in particular, for example.

The extent to which we've gotten past that, and the soybean farmers have gotten a relationship with those private Chinese companies back to where it was beforehand, that's still, again, playing out. I don't know if they've gotten back to that point yet. China is a very important market for soybean farmers, so the trade war with that country was very impactful on the farmers of that product.

Given the especially large soybean crop in 2018, farmers had to basically drop their prices in order to stay competitive. That also hurt their profitability.

It takes time to repair those relationships with those customers that felt compelled to seek out other sources for the crops that they once were purchasing from these U.S. farmers. There was definitely impact from that standpoint.

Are there steps that crop insurers can take to mitigate the losses?

Brach: Crop insurers are attempting to gain scale and geographically diversify their books of business, while also refining their view of risk through modeling in order to optimize their fund designation strategies.

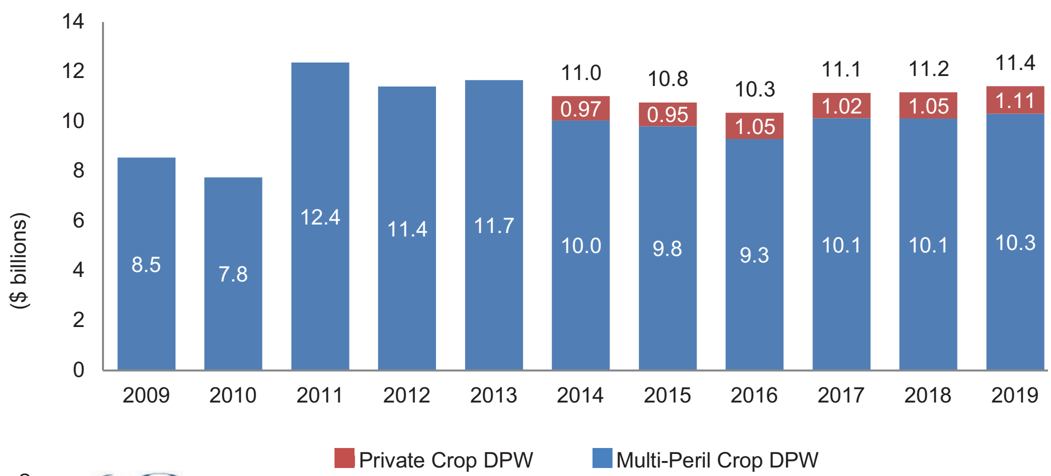
We also see crop insurers acquiring or partnering with agricultural technology firms in an attempt to improve the resiliency of crops through data and analytics, including precision agriculture techniques.

Finally, we see third-party quota share, excess-of-loss, and stop-loss reinsurance, as well as crop-derivative contracts being utilized to further manage risk. BR

AMBestTV

Go to *bestreview.com* to watch the interview with Connor Brach and David Blades.

US Crop Insurance – Direct Premiums Written, 2009-2019

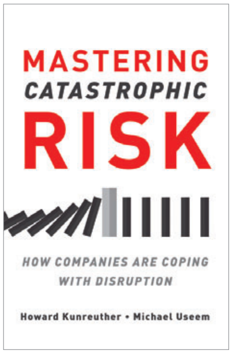


Source: BESTLINK

Coping With Disruption

In their new paperback edition of *Mastering Catastrophic Risk; How Companies Are Coping With Disruption,* the authors suggest several courses of action for decision-makers as they face the current pandemic.

Mastering Catastrophic Risk: How Companies Are Coping With Disruption



Howard Kunreuther and Michael Useem

The newly released paperback edition includes a preface highlighting how well-established cognitive biases such as focusing on short-term horizons and being too optimistic have had a serious impact on the pandemic and other low-probability high-consequence events.

Based on interviews with C-suite executives of over 100 S&P 500 firms before the pandemic, the authors suggest courses of action for decision-makers facing COVID-19 challenges to undertake. The actions are premised on helping firms to focus on their risk appetites and risk tolerance, so they think more strategically about preparing for disruptions to their enterprises. By taking steps now to address these eventualities—rather than assuming they will not happen—managers are more likely to reduce their potential consequences. Included in the book are 15 steps for mastering catastrophes that have direct relevance for coping with the coronavirus and future calamities.

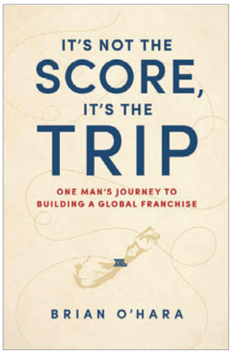
Kunreuther is co-director of the Risk Management and Decision Processes Center and Useem is faculty director of the Center for Leadership and Change Management at the Wharton School, University of Pennsylvania.

Publisher: Oxford University Press (September 2020)

It's Not the Score, It's the Trip: One Man's Journey to Building A Global Franchise

Brian O'Hara

Brian O'Hara, the founding president, former CEO and chairman of XL Capital, now AXA XL, was one of the forces that helped establish Bermuda as an international insurance hub. In his memoir, he shares stories from his career.



O'Hara also expounds on his serendipitous "Spartacus moment."

After learning of an adverse development with his company, he assured executives that their compensation would not be affected and paraphrases the iconic movie quote by saying "You are not Spartacus." Later that evening he was introduced to the son of the actor who played Spartacus, Michael Douglas.

Publisher: Advantage Media Group (June 2020)

AMBestTV

Go to *bestreview.com* to view the full interview with Brian O'Hara.

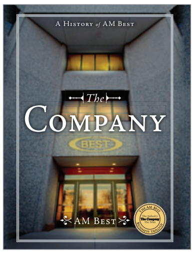
AM Best Trilogy

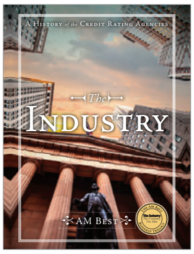
AM Best details the history of AM Best, credit rating agencies and the life of Alfred M. Best.

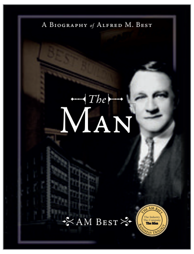
The Company—A History of AM Best

The Industry—A History of Credit Rating Agencies

The Man—A Biography of Alfred M. Best







Send us your book recommendations at *bestreviewcomment@ambest.com*.

Pandemic Impacts

Trending news, research and media include an article about public-private partnerships, a webinar on surplus lines, and a cross-media series, "An Industry Transformed," on the impact of the pandemic on the insurance industry.

Trending Features from *Best's Review*

1. **Pandemic Partnerships**
   As businesses emerge from months of shutdown due to the coronavirus, insurers and reinsurers around the world work with governments to mitigate the economic impact of future pandemics. (August 2020)
2. **A Hard Reality**
   While loss creep from recent major catastrophes, inflation and other factors are tightening reinsurance capacity this year, the global COVID-19 pandemic could add another layer of challenges to the reinsurance market. (August 2020)
3. **Past as Prologue**
   New York Life CEO Ted Mathas finds even amid the COVID-19 pandemic that the company's 175-year history can be a guide to the future. (September 2020)
4. **Top Global Insurance Brokers**
   Acrisure LLC and EPIC Insurance Brokers & Consultants each jump two spots in ranking. China-based Fanhua makes a return. (July 2020)
5. **Making the Jump**
   The realities of doing business during the global COVID-19 pandemic are forcing the notoriously slow-moving life insurance industry in many cases to leap into the digital age and make planned adjustments ahead of schedule. (July 2020)

Trending Articles on Best's Insurance News & Analysis

1. **AM Best Affirms Credit Ratings of Active Capital Reinsurance Ltd.** (July 2, 2020)
2. **APCIA: Regulators' Rejection of Communicable Disease Exclusion Filings Creating P/C Crisis** (August 11, 2020)
3. **Swiss Re Warns of $2.5 Billion COVID-19 Hit for First Half** (July 22, 2020)

Trending AM Best Research

1. **Special Report: U.S. Life/Health Industry Continues to Tread Water in a Benign Economy** (May 14, 2014)
2. **Market Segment Report: Rated Bermuda, Cayman Island, and Barbados Captives Steadily Navigate Market Cycles** (November 25, 2019)
3. **Canadian Life Industry: Calmer Waters Than U.S. Life Industry's Perfect Storm** (July 7, 2003)

Trending AMBestWebinars

1. **State of the Surplus Lines Market** (September 10, 2020)
2. **How the COVID-19 Pandemic Is Changing the Insurance Industry** (July 16, 2020)
3. **AM Best and the Current State of the Cyber Insurance Market** (July 27, 2020)

Trending AMBestTV Videos

1. **An Industry Transformed: Reaching Beyond the Industry** (August 20, 2020)
2. **An Industry Transformed: Digitally Native, Not by Choice** (August 17, 2020)
3. **An Industry Transformed: Defending Relevancy** (August 19, 2020)

The above content can be accessed at *www.ambest.com.*

U.S. Property/Casualty - 2019 Asset Distribution

Ranked by 2019 total admitted assets.

($ Millions)

2019 Rank	2018 Rank	Company/Group	AMB#	Nonaffiliated Bonds	% of Assets	Nonaffiliated Common Stocks	% of Assets	Affiliated Bonds & Stocks	% of Assets	Cash & Short-Term Investments	% of Assets	Total Admitted Assets	Gross Yield on Invested Assets 2019	Gross Yield on Invested Assets 2018	Gross Yield on Invested Assets 2017
1	1	Berkshire Hathaway Ins	000811	$4,478	1.1	$217,940	55.3	$23,086	5.9	$52,103	13.2	$394,244	3.6	4.1	3.7
2	2	State Farm Group	000088	104,298	49.8	66,603	31.8	15,036	7.2	3,771	1.8	209,633	2.8	2.7	2.9
3	3	Liberty Mutual Ins Cos	000060	46,929	54.1	1,331	1.5	7,251	8.4	919	1.1	86,761	3.5	6.9	2.8
4	4	Travelers Group	018674	60,378	72.9	115	0.1	1,415	1.7	2,771	3.3	82,877	3.9	3.9	3.9
5	6	Chubb INA Group	018498	50,098	70.1	384	0.5	123	0.2	-670	-0.9	71,482	4.1	3.7	4.1
6	5	Amer Intl Group	018540	39,480	58.0	136	0.2	2,362	3.5	1,150	1.7	68,097	4.1	4.5	4.3
7	7	Allstate Ins Group	000008	32,142	57.3	4,451	7.9	4,585	8.2	1,176	2.1	56,085	3.9	4.2	5.0
8	9	USAA Group	004080	23,222	42.2	4,855	8.8	12,960	23.5	534	1.0	55,068	3.3	3.4	4.3
9	8	Nationwide Group	005987	19,781	37.6	98	0.2	6,752	12.8	774	1.5	52,551	3.5	3.4	3.2
10	12	Progressive Ins Group	000780	30,730	62.3	3,306	6.7	751	1.5	442	0.9	49,343	3.1	2.9	2.5
11	11	Hartford Ins Group	000048	29,079	63.4	1,103	2.4	144	0.3	1,099	2.4	45,851	4.2	4.1	3.9
12	10	CNA Ins Cos	018313	35,033	79.5	142	0.3	750	1.7	1,132	2.6	44,071	5.2	5.6	5.1
13	13	Zurich Ins US PC Group	018549	18,384	57.0	1,192	3.7	0	0.0	146	0.5	32,281	3.4	3.3	3.0
14	14	Farmers Ins Group	000032	17,421	57.3	666	2.2	7	0.0	601	2.0	30,386	3.6	3.2	2.9
15	15	Tokio Marine US PC Group	018733	19,239	66.3	236	0.8	960	3.3	671	2.3	29,025	4.7	4.7	4.6
16	17	Fairfax Financial (USA) Group	003116	7,960	32.3	1,285	5.2	2,650	10.8	4,180	17.0	24,635	2.6	2.3	1.7
17	21	Swiss Reins Group	003262	15,625	63.9	579	2.4	0	0.0	1,173	4.8	24,449	2.8	2.7	2.4
18	18	Auto-Owners Ins Group	004354	17,500	73.3	2,126	8.9	674	2.8	57	0.2	23,883	2.9	3.1	2.7
19	16	Amer Family Ins Group	000124	13,249	55.5	1,929	8.1	891	3.7	1,702	7.1	23,882	5.3	7.2	3.3
20	19	Munich-Amer Hldg Corp Cos	018753	14,993	65.6	94	0.4	97	0.4	661	2.9	22,842	3.0	2.9	2.3
21	22	FM Global Group	018502	7,039	32.1	6,803	31.1	2,188	10.0	1,261	5.8	21,907	2.2	2.1	2.0
22	23	W. R. Berkley Ins Group	018252	11,579	53.8	533	2.5	1,389	6.5	862	4.0	21,520	3.2	6.7	4.9
23	20	State Compensation Ins Fund	004028	19,094	91.0	1,036	4.9	0	0.0	145	0.7	20,975	3.4	3.4	3.4
24	24	State Ins Fund WC Fund	004029	16,292	78.9	1,850	9.0	0	0.0	529	2.6	20,648	3.2	3.1	3.2
25	26	Erie Ins Group	004283	9,942	49.5	3,977	19.8	316	1.6	611	3.0	20,080	3.7	3.7	3.9
		Top 25 Insurers		**$663,970**	**43.3**	**$322,768**	**21.1**	**$84,387**	**5.5**	**$77,798**	**5.1**	**$1,532,578**	**3.6**	**3.9**	**3.6**
		Total U.S. P/C Industry		**$1,092,964**	**48.7**	**$395,141**	**17.6**	**$93,738**	**4.2**	**$117,817**	**5.3**	**$2,243,718**	**3.5**	**3.7**	**3.4**

Source: BESTLINK — Statement File - P/C, US; Data as of: August 17, 2020

COVID-19 Exposed Insurers' ERM Shortcomings

AM Best also comments on the UK High Court's ruling in the Financial Conduct Authority's test case on business interruption insurance.

A selection of recent industry research:

Market Segment Report: Title Insurance Market Perseveres Amid Upheaval and Economic Uncertainty
The title insurance segment has been resilient amid the pandemic and the economic slowdown.

October 6, 2020 - 15 Pages

Market Segment Report: Nigeria's Insurance Market Offers Significant Potential Despite Headwinds
Nigeria's oil and gas reserves and its population demographic hint at the potential for its insurance sector.

October 5, 2020 - 10 Pages

Special Report: Mid-Year Rating Changes Mixed as P/C Insurers Manage Challenging Market Dynamics
Affirmations were again the most common rating action, and most rating outlooks remained at Stable.

September 28, 2020 - 10 Pages

Special Report: COVID-19 Drives Up Medicaid Enrollment as State Budgets Are Pressured
Possible rate cuts could pressure revenue streams as the economic toll of the pandemic hits state budgets.

September 28, 2020 - 10 Pages

Special Report: COVID-19 Highlights Weaknesses in Insurers' Enterprise Risk Management
Insurers cannot expect to be immune to economic slumps and supply chain disruptions.

September 24, 2020 - 9 Pages

Market Segment Report: MENA Reinsurers Strive to Adapt to Testing Conditions
In general, MENA regional reinsurers have demonstrated resilience in a difficult operating environment.

September 22, 2020 - 6 Pages

Market Segment Report: Caribbean P/C Insurers Suffer Double Blow from Rising Reinsurance Rates and COVID-19
The entire Caribbean is being threatened more by COVID-19 than by storms this year.

September 18, 2020 - 12 Pages

Market Segment Report: Expanding Opportunities Bolster Surplus Lines Growth and Operating Results
The surplus lines composite generated far more favorable underwriting results in 2019 over 2018, in addition to the usual pretax and net profits.

September 10, 2020 - 68 Pages

AM Best Commentary

Commentary: Potentially Severe Flood Losses from Hurricane Sally
The gap between economic and insured losses is likely to be significant.

September 17, 2020 - 3 Pages

Commentary: UK COVID-19 Business Interruption Court Ruling Brings Greater Clarity but Questions Remain
Following the English High Court's judgment in the UK Financial Conduct Authority's (FCA) business interruption (BI) insurance test case, AM Best expects COVID-19-related BI claims to have a material impact on UK commercial property insurers' 2020 earnings.
September 15, 2020 - 3 Pages

Best's Insurance News & Analysis subscribers can download PDF copies of all Best's Special Reports, Best's Commentaries and Best's Market Segment Reports along with supporting spreadsheet data at *www.ambest.com.*

Rising Cost of Claims, Catastrophe Modeling, Pandemic and the P/C Market

AM BEST WEBINARS

AM Best Webinars

Experts examine social inflation and the types of claims affected, the impact of COVID-19 on the U.S. P/C market, AM Best's COVID-19 stress test and technical advances of U.S. peril models.

On Demand

Pandemic Perspectives: Implications for the US P/C Market

AM Best analysts discuss both the impact of COVID-19 on the U.S. property/casualty market and AM Best's COVID-19 stress test results.

On-Demand Catastrophe Modeling Services for Three Major US Perils

A panel of experts discuss the technical advances of three key U.S. peril models (earthquake, hurricane, and flood) and describe pioneering, on-demand risk-and loss-analysis services, based on those models.

Canada 2020 Hot Topics Panel Discussion

AM Best analysts and market experts examine significant industry issues, including the impact of COVID-19 and regulatory/accounting issues that will influence the Canadian insurance market.

All in the Family: Tapping Into The Pet Insurance Market Opportunity

Insurance consultants and experts explore how insurers can embrace new strategies and align their products, distribution and underwriting, claims and operations to tap into the pet insurance market.

Streaming Live

Impact of Social Inflation on Insurance

Insurers complain of a rise of large jury awards, juror anti-business bias and investor-funded litigation. A panel of claims and legal experts examine what's driving social inflation, which types of claims are most affected and how the insurance industry is responding.

Tuesday, Nov. 10, 2 p.m. ET

Webinar Highlights

Building More Profitable Home Insurance with Customer Value

While opportunities abound with the Customer Lifetime Value (CLV) approach, challenges persist. Industry experts discuss strategies such as customer acquisition, customer relationship development and improving portfolio profitability.

View These and Other AM Best Webinars

- AM Best's Reinsurance Market Briefing – Zurich
- Responding to the Challenges of Wildfire Claims
- AM Best's Reinsurance Market Briefing – RVS 2020

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

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Captives Continue To Draw More New Business

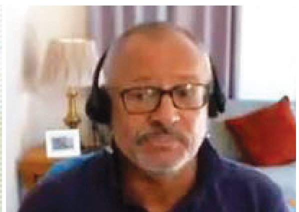
A hardening market is driving an increased interest in captives, reinsurance deals are becoming harder to complete, and enrollment growth is driving U.S. Medicare Advantage earnings. AMBestTV and AMBestAudio report on stories from a number of sectors within the insurance industry.

On Demand

Panel: Hardening Market Driving Bermuda Captive Growth

Captives, including new formations, new cells and existing entities, are writing more business during the hardening market, according to a panel focused on the Bermuda landscape. The panel includes Séadna Kirwan, risk advisory director, commercial risk solutions, Aon; and Michael Parrish, senior vice president, Marsh Captive Solutions.

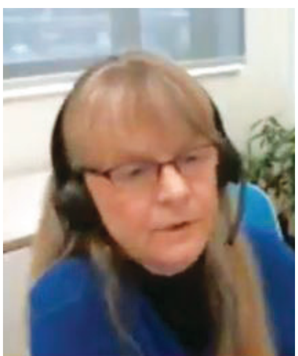
Séadna Kirwan



Michael Parrish

Panel: Hard Market Driving Interest in Captives

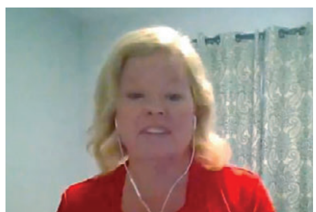
The pandemic, economic downturn and higher insurance rates have increased interest in captive insurers, say panelists in a recent AM Best webinar. The group of analysts and industry leaders, including Pamela E. Davis, founder, president and chief executive officer, Nonprofits Insurance Alliance, reviews market, regulatory and risk issues affecting the captive insurance sector.



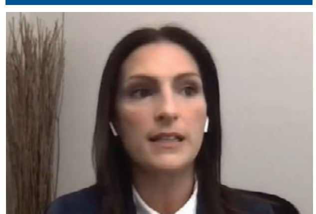
Pamela E. Davis

AM Best: Medicare Advantage Earnings Are Up

Enrollment growth is driving U.S. Medicare Advantage earnings, say Bridget Maehr, associate director, and Antonietta Iachetta, senior financial analyst, both of AM Best. The U.S. Medicare Advantage insurance segment continued its strong earnings trend in 2019, increasing by 11% to $279 billion.



Bridget Maehr



Antonietta Iachetta

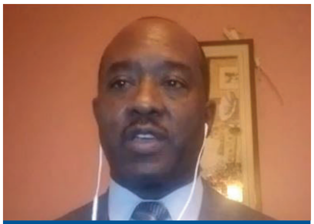
Visit *www.ambest.com/video* to see new and archived video from AMBestTV.

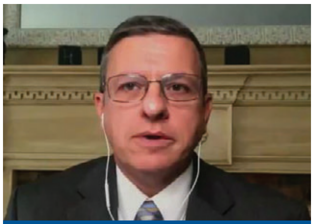
Broker New Dawn Risk: 'Long-Awaited' Hard Market Arrives


Max Carter

Rates are up, terms and conditions are tightening, and deals are harder to complete, says Max Carter, CEO of New Dawn Risk, a wholesale and reinsurance broker.

AM Best: Market Dislocation Drives Growth for US Surplus Lines


David Blades


Robert Raber

Some excess and surplus lines insurers experienced a 15-year high in premium gains during 2019, says David Blades and Robert Raber, both associate directors, AM Best. Looking at the balance of 2020 and into 2021, AM Best anticipates this sector will continue to show resiliency.

Panel: New Capital Flowing Into Reinsurance Market


Silke Sehm

New capital is entering the reinsurance market as rates continue to rise, according to participants in a State of the Global Reinsurance Market panel discussion. Panelists, including Silke Sehm, executive board member, Hannover Re, examine the impact of COVID-19, natural disasters and other developments on reinsurance capital.

AM BEST AUDIO

Pandemic Propels New Processes

Industry professionals talk with AMBestAudio about how the pandemic is hastening the move to automate systems and the changes in homeowners insurance.

Pandemic Spurring Automation in Insurance

Max Drucker, founder and CEO of Carpe Data, discusses why he believes the COVID-19 pandemic will continue to hasten moves to automate systems and processes in insurance.

The Coronavirus Is Changing Homeowners Insurance

Yuval Harry, vice president of partnerships at Hippo, explains how COVID-19 is impacting homeowners insurance and how carriers are adapting to meet policyholder needs.

Find AMBestAudio at *www.ambest.com/ambaudio.*

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This edition lists all Credit Rating actions that occurred between Sept. 1 and Sept. 30, 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
AMERICAS LIFE/HEALTH								
⇅	L	Catholic Order of Foresters	006191	A- a-	Negative Negative	A- a-	Stable Stable	Illinois
—	L	Columbian Life Insurance Company *Columbian Mutual Life Insurance Company*	068009	B++ bbb	Negative Negative	B++ bbb+	Stable Negative	Illinois
—	L	Columbian Mutual Life Insurance Company *Columbian Mutual Life Insurance Company*	006243	B++ bbb	Negative Negative	B++ bbb+	Stable Negative	New York
⇥	L	Hawaii Dental Service	058183	NR nr		A a	Stable Stable	Hawaii
⇅	H	MII Life Insurance, Incorporated *Aware Integrated, Inc.*	009495	B++ bbb+	Stable Negative	B++ bbb+	Stable Stable	Minnesota
New	L	Prosperity Life Assurance Limited *Irizaba LP*	074562	A- a-	Stable Stable			Bermuda
⊕	L	Standard Life and Casualty Insurance Co *Manhattan Life Group, Inc.*	007408	B bb+	Stable Stable	B u bb u	Positive Positive	Utah
⊕	H	United National Life Ins Co of America *Independence Holding, Inc.*	006236	B++ bbb+	Stable Stable	B++ bbb	Stable Positive	Illinois
AMERICAS PROPERTY/CASUALTY								
⇅	P	Ascot Bermuda Limited *Canada Pension Plan Investment Board*	095290	A a	Stable Positive	A a	Stable Stable	Bermuda
⇅	P	Ascot Insurance Company *Canada Pension Plan Investment Board*	020561	A a	Stable Positive	A a	Stable Stable	Colorado
⇅	P	Ascot Specialty Insurance Company *Canada Pension Plan Investment Board*	011545	A a	Stable Positive	A a	Stable Stable	Rhode Island
⇅	P	Aventus Insurance Company *Southwest Frontier LP*	010826	B++ bbb	Stable Positive	B++ bbb	Stable Stable	Texas
⚑	P	CGB Insurance Company *CGB Enterprises, Inc.*	022038	A- u a- u	Positive Positive	A- a-	Stable Stable	Indiana
⇅	P	Constitution Insurance Company *Constitution Group, LLC*	014024	A- a-	Stable Stable	A- a-	Negative Negative	New York
⇥	P	Global Indemnity Reinsurance Company Ltd	076117	NR nr		A a	Stable Stable	Bermuda
New	P	Highlander Specialty Insurance Company *Pine Brook Capital Partners II (Cayman)*	020920	A- a-	Stable Stable			Illinois
⊕	P	Highmark Casualty Insurance Company *Highmark Health*	010086	A a	Stable Stable	A- a-	Stable Stable	Pennsylvania
New	P	Lancer Insurance Company of New Jersey *Lancer Financial Group, Inc.*	014364	A- a-	Stable Stable	NR nr		New Jersey
⇅	P	Lexington National Insurance Corporation	011519	A- a-	Negative Negative	A- a-	Stable Stable	Florida
⊕	C	Markel Bermuda Limited *Markel Corporation*	087119	A a+	Stable Stable	A a	Stable Stable	Bermuda
⊕	P	Markel Global Reinsurance Company *Markel Corporation*	013819	A a+	Stable Stable	A a	Stable Stable	Delaware
⚑	P	MGA Insurance Company, Inc. *GAINSCO, INC.*	002854	B++ u bbb u	Positive Positive	B++ bbb	Stable Positive	Texas
⊕	P	Repwest Insurance Company *AMERCO*	003597	A a	Stable Stable	A- a-	Positive Positive	Arizona

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
AMERICAS PROPERTY/CASUALTY (CONTINUED)								
☑	P	Spinnaker Insurance Company *Hippo Enterprises Inc.*	022321	A- a-	Stable Stable	A- u a- u	Developing Developing	Illinois
⇅	P	StarStone National Insurance Company *Enstar Group Limited*	002512	A- u a- u	Developing Developing	A- u a- u	Negative Negative	Delaware
⇅	P	StarStone Specialty Insurance Company *Enstar Group Limited*	011432	A- u a- u	Developing Developing	A- u a- u	Negative Negative	Delaware
⊕	P	T.H.E. Insurance Company *AXA S.A.*	000789	A+ aa-	Stable Stable	A- a-	Stable Stable	Louisiana
EUROPE, MIDDLE EAST AND AFRICA								
⇅	C	Noor Takaful Family PJSC *Dar Al Takaful PJSC*	090644	B u bb u	Negative Negative	B u bb u	Developing Developing	United Arab Emirates
⇅	P	Noor Takaful General PJSC *Dar Al Takaful PJSC*	090591	B u bb u	Negative Negative	B u bb u	Developing Developing	United Arab Emirates
ASIA-PACIFIC								
⊕	P	MS First Capital Insurance Limited *MS&AD Insurance Group Holdings, Inc.*	089433	A a+	Stable Stable	A a	Stable Stable	Singapore
⇅	P	Samsung Reinsurance Pte. Ltd. *Samsung Fire & Marine Insurance Co Ltd*	091577	A a	Stable Stable	A a	Negative Negative	Singapore
AMERICAS								
⊕	P	AXA Corp Solutions Brasil America Re *AXA S.A.*	094263	A+ aa-	Stable Stable	B++ bbb	Stable Stable	Brazil
⊕	C	Chubb Seguros Panama S.A. *Chubb Limited*	090179	A+ aa-	Stable Stable	A a+	Positive Positive	Panama
⇅	L	Colina Insurance Limited *AF Holdings Ltd.*	089077	A- a-	Negative Negative	A- a-	Stable Stable	Bahamas
⇅	L	Family Guardian Insurance Company Ltd *FamGuard Corporation Limited*	087111	A- a-	Negative Negative	A- a-	Stable Stable	Bahamas
⇅	C	Guardian General Insurance Limited *NCB Financial Group Limited*	086364	A- a-	Negative Negative	A- a-	Stable Stable	Trinidad and Tobago
⇅	L	Guardian Life of the Caribbean Limited *NCB Financial Group Limited*	084191	A- a-	Negative Negative	A- a-	Stable Stable	Trinidad and Tobago
—	C	Insurance Corp of Barbados Limited *Paynes Bay Finance Inc.*	086555	B++ u bbb+ u	Developing Developing	A- a-	Stable Stable	Barbados
⇅	L	NCB Insurance Company Ltd *NCB Financial Group Limited*	091514	B bb	Negative Negative	B bb	Stable Stable	Jamaica
—	P	XL Seguros México, S.A. de C.V. *AXA S.A.*	078108	B++ u bbb+ u	Negative Negative	A+ aa-	Stable Stable	Mexico

Holding Companies

Rating Action	Company Name	AMB#	Current ICR	Current Outlook/ Implications	Previous ICR	Previous Outlook/ Implications	Domicile
⇅	Colina Holdings Bahamas Limited	055763	bbb-	Negative	bbb-	Stable	Bahamas
⇅	FamGuard Corporation Limited	087110	bbb-	Negative	bbb-	Stable	Bahamas
New	Global Indemnity Group, LLC	044793	bbb	Stable			Delaware
⇥	Global Indemnity Limited	046431	nr		bbb	Stable	Cayman Islands
⇅	Guardian Holdings Limited	087118	bbb-	Negative	bbb-	Stable	Trinidad and Tobago

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

BEST'S FINANCIAL STRENGTH RATING GUIDE – (FSR)

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

Best's Financial Strength Rating (FSR) Scale

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

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

Financial Strength Non-Rating Designations

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

Rating Disclosure – Use and Limitations

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

Financial Size Category

To enhance the usefulness of ratings, AM Best assigns each rated (A++ through D) insurance company a Financial Size Category (FSC). The FSC is based on adjusted policyholders' surplus (PHS) in U.S. dollars and may be impacted by foreign currency fluctuations. The FSC is designed to provide a convenient indicator of the size of a company in terms of its statutory surplus and related accounts.

Many insurance buyers only want to consider buying insurance coverage from companies that they believe have sufficient financial capacity to provide the necessary policy limits to insure their risks. Although companies utilize reinsurance to reduce their net retention on the policy limits they underwrite, many buyers still feel more comfortable buying from companies perceived to have greater financial capacity.

Class	Adj. PHS ($ Millions)
I	Less than 1
II	1 to 2
III	2 to 5
IV	5 to 10
V	10 to 25
VI	25 to 50
VII	50 to 100
VIII	100 to 250

Class	Adj. PHS ($ Millions)
IX	250 to 500
X	500 to 750
XI	750 to 1,000
XII	1,000 to 1,250
XIII	1,250 to 1,500
XIV	1,500 to 2,000
XV	2,000 or greater

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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State Actions, Name Changes, New Companies, Acquisitions and Ownership Changes

Time, Empire and Spinnaker insurance companies are among the life/health and property/casualty insurers in the United States that have had a merger, a change in name or another corporate change.

LIFE/HEALTH

New Companies

AllWays Health Partners Select LLC (AMB# 062477), incorporated April 9, 2020 in Massachusetts.

Zing Health of Michigan Inc. (AMB# 062476), incorporated Jan. 31, 2020 in Michigan.

Summit Health Plan Inc. (AMB# 062475), incorporated Feb. 27, 2020 in Oregon.

WellCare Health Plans of Rhode Island Inc. (AMB# 062462), incorporated Feb. 3, 2020 in Rhode Island.

WellCare of Illinois Inc. (AMB# 062461), incorporated Feb. 7, 2020 in Illinois.

State Actions

Time Insurance Co. (AMB# 007126), Madison, Wis. This company was placed into rehabilitation on July 29, 2020.

PROPERTY/CASUALTY

Mergers

LCTA Specialty Insurance Co. (AMB# 023194), Baton Rouge, La. This company merged with and into LCTA Casualty Insurance Co. on June 23, 2020.

Omega Insurance Co. (AMB# 002727), Gainesville, Fla. This company merged with and into Tower Hill Signature Insurance Co. on June 1, 2020.

Tower Hill Select Insurance Co. (AMB# 012719), Gainesville, Fla. This company merged with and into Tower Hill Signature Insurance Co. on June 1, 2020.

Name Changes

Danielson National Insurance Co. (AMB# 011351), San Diego. This company changed its name to Incline National Insurance Co. on July 2, 2020.

Empire Insurance Co. (AMB# 020943), New York. This company changed its name to EmPRO Insurance Co. on July 22, 2020.

Acquisitions & Ownership Changes

Empire Insurance Co. (AMB# 002150), New York. On June 30, 2020, this company entered into a Transfer and Assumption agreement with its parent, Sirius America Insurance Co. whereby all of the liabilities of Empire relating to events occurring on or before June 30, 2020 were transferred to and assumed by Sirius. Effective July 7, 2020, the company was acquired as a shell by Physicians' Reciprocal Insurers.

Gateway Insurance Co. (AMB# 020941), Schaumburg, Ill. The stock, charter and state licenses of Gateway Insurance Co. were acquired by Buckle Corp. from Atlas Financial Holdings Inc. on June 16, 2020. A portion of the purchase price was paid to the statutory liquidator of Gateway Insurance Co. at closing by Buckle Corp.

Spinnaker Insurance Co. (AMB# 022321), Chicago. This company was acquired by Hippo Enterprises Inc. from Sojourner Holding Company LLC on Aug. 31, 2020.

Notice: While AM Best confirms the accuracy of Best's Ratings of insurers referenced in advertisements published in this magazine, these ratings are subject to change after publication. The current ratings of insurance companies are available free on the web at *www.ambest.com/ratings*. Further, we can't warrant the Best's Ratings claimed by brokers advertising coverages from unrated insurers. In addition, some of the insurance policies, products and services advertised may not be available, licensed or legal in all jurisdictions.

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All in the Family

Pet insurance observers say able 'parents' drive five-year, annual 22.1% growth rate.

by Renée Kiriluk-Hill

It's a fetching time for pet insurers. Potential customers identify as pet parents and grandparents, willing and financially able to take measures unheard of just a decade ago to make their pets live longer and healthier lives, according to industry professionals.

Pet health insurance—a $1.56 billion market in the United States—is a wide-open line with tens of millions of potential insureds and penetration rates in the low single digits. The global pandemic accelerated demand for pet health insurance, observers said, as adoptions soared and pre-COVID-19 owners self-isolated with their pets.

About 60 million—or half—of U.S. households include at least one pet, the U.S. Census Bureau estimates. And they're spending more on them: Sales of pet care services doubled to $5.8 billion over the decade ending in 2017, the bureau said at the start of the year.

Meanwhile, pet insurance premium has risen an average 22.1% annually over the past five years, according to North American Pet Health Insurance Association Executive Director Kristen Lynch, as last year more than 2.81 million pets were insured in the United States and Canada. U.S. pet insurance premiums hit $1.56 billion and Canadian premiums $159 million in 2019, NAPHIA reported.

The COVID-19 pandemic has led to more adoptions and acquisitions, combined with a dramatic change in pet owners' lifestyles ... people were home from work and school. "These very real shifts in our behaviors and values around our pets are what is known as the evolution of the human/animal bond," Lynch said. "If we consider this alongside the pandemic's impact on our earning and spending habits, it is easy to see why pet insurance is seeing increased growth."

Trupanion, which is considered the second-largest carrier in the line, reported the number of pets enrolled in its plans increased 29% in the second quarter to 744,727. The company posted a $1.4 million net income compared to a $1.9 million net loss a year earlier.

Nationwide, as Veterinary Pet Insurance, issued the first U.S. pet health insurance policy in 1982 for screen star Lassie.

It's the largest insurer in the line, covering more than 847,000 pets, and the only one to insure birds and exotic animals, said Chief Pet Officer Heidi Sirota. The line started taking off about six years ago as new entrants—largely managing general agents—raised the profile of pet insurance, she said.

Concurrently, younger generations are fueling demand. "They're adopting pets in record numbers, choosing pets over partners," Sirota said. "It's really a fast-growing and evolving industry." Moving forward she sees different types of pet health subscriptions emerging and the acceptance of telemedicine for veterinarians.

Were the penetration rate to rise to 10% over the next decade, Cognizant Chief Digital Officer and Consulting Leader Chris Blatchly said, it would provide massive growth for "an industry that doesn't see growth" in other U.S. personal lines. BR

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