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BEST'S REVIEW®

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AM BEST'S MONTHLY INSURANCE MAGAZINE

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BEST'S REVIEW®

January 2021 • Volume 122 • Issue 1 www.bestreview.com

AM BEST'S MONTHLY INSURANCE MAGAZINE

Next Steps

Insurtechs enter their next stage of development as they make deals, pursue new ideas and work with mentors to find solutions to industry challenges.

The Insurtech Evolution
Pages 27 – 40

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

Insurtech Moves

Noteworthy developments for insurtechs include IPOs and mergers. *Best's Review* also provides listings and coverage of insurers in India and in the Middle East and North Africa region.

Venture capital has been putting millions of dollars into insurtech startups over the past few years, and now some of those investments are bearing fruit.

Lemonade's shares more than doubled on their first day of trading last July in the company's initial public offering—a performance that surprised many in the insurtech world and paved the way for other startups waiting in the wings.

Although the Softbank-backed online insurer, which was launched in 2016, has been unprofitable, shares have climbed from their IPO price of $29 a share to around $90 in early December.

In late October, auto insurer Root raised about $724 million in its IPO. Shares were priced at $27, but since declined to around $15 in early December. Metromile, a digital insurance platform, said in November it would go public by being acquired by a special purpose acquisition company. And Hippo has said it was tentatively preparing for an IPO in 2021.

Lemonade, Root and Metromile are currently unrated by AM Best. As of press time, Hippo's operating entity Spinnaker Insurance has an A- (Excellent) rating.

While some insurtech startups have been pursuing IPOs, others are seeking out mergers.

In the January issue, *Best's Review* takes an in-depth look at the insurtech sector and how it is evolving.

"Turning the Corner" examines the deal environment and how it's now the insurtechs that are interested in making acquisitions.

In "A Healthy Dose of Reality," *Best's Review* speaks with Adrian Gore, the founder and CEO of Discovery Limited, about the genesis of his company and the challenges COVID-19 is posing to global health systems.

Lloyd's Lab, an insurtech accelerator, is helping insurance startups get off the ground. Find out more in "Laboratory of the Minds."

While insurers in the United States, London and Bermuda often get the lion's share of attention, insurance is a global business. In the January issue, *Best's Review* presents listings of insurers in India and in the MENA region, as well as coverage of those markets. See "A Simpler Solution" and "A Disciplined Response."

Low interest rates are having an ongoing impact on the life insurance sector. In "Burning at Both Ends," *Best's Review* looks at trends in the annuity market as some insurers shift their product lineup in response to both the investment climate and consumer demand.

Best's Review also includes information about upcoming insurance conferences and trade shows for 2021. Many have canceled in-person events or have rescheduled them for later in the year, while others are holding events in a virtual format. See "Meeting the COVID Challenge" for more.

Patricia Vowinkel
Executive Editor
patricia.vowinkel@ambest.com

The Question:

As the pandemic's one-year anniversary approaches, what are the biggest changes you've seen in the insurance industry?

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

Reader responses will be published in a future issue.

Contents

INSURTECH

Best's Review examines the insurtech sector and speaks with top executives at insurtechs such as Discovery Ltd., which developed a rewards-based health insurance model; Blink, a parametric technology company; Metabiota, an insurtech that tracks epidemics; and Thimble, a provider of online business insurance—as well as with insurtech accelerator Lloyd's Lab.

Turning a Corner

Insurtechs go through a wave of consolidation and in some cases merge with each other as they move into their next stage of development.

A Healthy Dose of Reality

Discovery Limited's founder and CEO Adrian Gore talks about understanding behavioral biases around wellness and incentivizing related lifestyle choices, especially during a pandemic.

Laboratory of the Minds

How the Lloyd's Lab, an insurtech accelerator, is building a bridge between the newest technology and the oldest insurance market.

WORKERS' COMPENSATION

The Great Unknowns

Workers' comp insurers face many uncertainties around COVID-related claims.

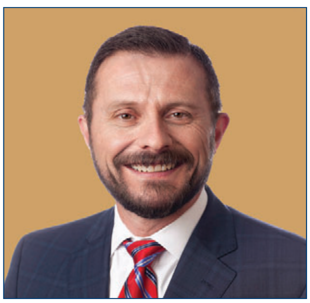
ANNUITIES

Burning at Both Ends

As consumers used to a bull market seek investment gains over guaranteed income, historically low interest rates complicate efforts of providers to meet the challenge.

Delaware Advantage

- Delaware takes captive insurance company licensing to a new level that Speeds to Market the licensing process.
- Delaware is the first in the nation to electronically offer a conditional certificate of authority as part of the general application.
- Delaware's conditional certificate of authority means receiving a license to conduct insurance business the same day of submitting the application to do business.



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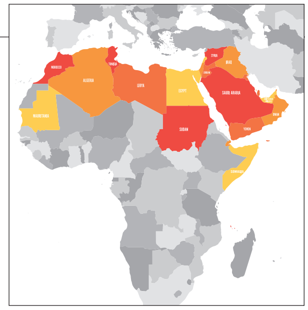

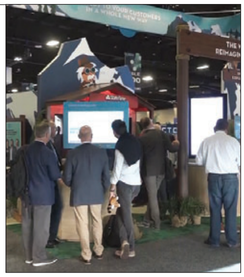

Cover design by Andrew Crespo.

American Farm Bureau Convention Goes Virtual

Jan. 10-13: VIRTUAL. American Farm Bureau Convention, American Farm Bureau Federation.

Feb. 1-4: VIRTUAL. Surplus Lines Management Program, Wholesale & Specialty Insurance Association (WSIA).

Feb. 5: VIRTUAL. Artemis ILS NYC, Artemis, New York.

Feb. 5-6: International CPCU Symposium, The Institutes CPCU Society, Singapore.

Feb. 7-10: VIRTUAL. APCIA Executive Roundtable Conference, American Property Casualty Insurance Association.

Feb. 9-11: VIRTUAL. RRG Leaders Summit, National Risk Retention Association.

Feb. 11: VIRTUAL. Pandemic: One Year Later, Catastrophe Indices & Quantification Inc. (CatIQ).

Feb. 22-23: VIRTUAL. Emerging Leaders Conference, American Property Casualty Insurance Association (APCIA).

Feb. 24-25: VIRTUAL. World Captive Forum, Business Insurance.

Feb. 28-March 3: VIRTUAL. WSIA Underwriting Summit, Wholesale & Specialty Insurance Association.

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.*

Speaking Sponsoring

January Is Insurance Technology Awareness Month.
The insurtech segment is growing and maturing, with businesses evolving and net losses starting to narrow—or even inch toward profits—for property/casualty carriers. Investment in the space is booming as insurtech companies continue to make waves in the industry. Coverage begins on page 27.

AIG Spins Off Life and Retirement Businesses, Names CEO

TIAA's president and CEO to retire, Tennessee has new insurance commissioner, RLI names only third CEO in 55 years and Vindati names chief executive officer.

American International Group Inc. has announced a separation of its life and retirement businesses. At the same time, the company named a new chief executive officer.

"Over the last three years, we have taken significant action to de-risk AIG and position the company for profitable growth, including fortifying general insurance, diversifying life and retirement, significantly strengthening AIG's capital and liquidity position, and building a world-class team," Chief Executive Officer Brian Duperreault said in a statement.


Peter S. Zaffino

"This foundational work has positioned AIG to pursue a separation of life and retirement, enabling both companies to prosper as stand-alone entities," he added.

The move was met with support from President and Global Chief Operating Officer Peter S. Zaffino, who was named CEO effective March 1. He will retain his position as president and has been appointed director, effective immediately. Duperreault will become executive chairman.

In a statement Zaffino said: The company's "businesses can be further strengthened by separating life and retirement from AIG, which we believe will enable each entity to achieve a more appropriate and sustainable valuation."

AIG said its executive management team, with assistance from independent financial and legal advisers and oversight from the board of directors conducted a "comprehensive review" of the company's current composite structure, including strategic, operational, capital and tax implications.

—David Pilla

TIAA's President and CEO to Retire

TIAA President and Chief Executive Officer Roger W. Ferguson will retire on March 31, 2021, after 12 years with the company—all of them as president and CEO.


Roger W. Ferguson

Ferguson joined TIAA in 2008, having previously served at Swiss Re as head of financial services and chairman of the company's America Holding Corp. Prior to Swiss Re, he was vice chairman of the board of governors of the U.S. Federal Reserve System, which he joined in 1997.

Ferguson steered TIAA through the global financial crisis of 2008-2009 and moved early at the onset of the COVID-19 pandemic to implement remote work for 17,000 global employees, the company said.

Chubb Names Country President for Vietnam

Chubb has named Khue Dinh president for its Vietnam general insurance business.


Khue Dinh

Dinh will oversee the operations and business development activities of Chubb's key business lines in Vietnam—property/casualty, as well as accident and health insurance.

Dinh has 20 years of experience in the insurance industry, having held various leadership positions with international insurers and brokers. Prior to joining Chubb, she was director of emerging customers with Axa Insurance and represented the company on the board of directors of Bao Minh Insurance.

Employers Holdings Names Successor To Longtime Chief Executive

Employers Holdings Inc. has named Katherine H. Antonello to succeed Douglas D. Dirks as president and chief executive officer.

Douglas D. Dirks

Antonello will transition to her new role on April 1, at which point Dirks will retire after 27 years as CEO.

Antonello joined Employers in August 2019 as executive vice president and chief actuary of the company. Prior to that, she served as chief actuary for the National Council on Compensation Insurance from 2013-2019. Antonello has more than 25 years of workers' compensation insurance experience, having held leadership roles in actuarial, policy services, claims and internal audit functions.

CVS Health Names Successor to Retiring CEO

CVS Health has named Karen S. Lynch to succeed Larry J. Merlo as president and CEO. Lynch will also join the company's board of directors.

Karen S. Lynch

Larry J. Merlo

Lynch—currently executive vice president, CVS Health, and president, Aetna—will transition to her new role on Feb. 1. Merlo will retire after 40 years of service, more than 10 of which were as CEO, CVS said in a statement.

Lynch is responsible for developing diversified enterprise health care solutions that leverage all of CVS Health's assets. Prior to joining Aetna in 2012, she was president of Magellan Health Services, a diversified health services company, and held various senior executive positions at Cigna.

RLI Names Third Chief Executive Officer In Company's 55-Year History

RLI Corp. has named Craig W. Kliethermes, currently RLI Insurance Co. president and chief operating officer, to succeed Jonathan E. Michael as chief executive officer as of Jan 1.

Craig W. Kliethermes

Michael, who has been CEO since 2001, announced his decision to retire effective Dec. 31, 2021. He will remain chairman of the board after retiring as CEO.

Kliethermes, who was promoted to RLI Insurance Co. president and COO in 2016, will assume the role of RLI Corp. president and COO and be appointed to the board of directors, all effective Jan. 1. Previously, he served as senior vice president, risk services since 2013. Kliethermes joined RLI in 2006 and has 35 years of industry experience. Prior to joining RLI, he served in leadership roles with Lockton Cos., GE Insurance/Employers Reinsurance and John Deere Insurance Co.

Millers Mutual Names Successor To Retiring President and CEO

Millers Mutual Insurance named Jonah Mull president and chief executive officer, effective Jan. 1.

Jonah Mull

Mull, most recently executive vice president and chief operating officer, succeeds Scott Orndorff, who is retiring after 42 years in the industry. Orndorff will serve as vice chairman of the board and chief adviser to Mull through July 31.

Scott Orndorff

Millers Mutual's board of directors also has appointed Vice President and Chief Financial Officer

Jeffrey Pratt to the position of executive vice president and chief financial officer, effective Jan. 1.

Mull joined Millers in 2014 as an underwriting leader responsible for the growth, profit and development of the underwriting teams. In 2017 he was named vice president of operations. He was named executive vice president and chief operating officer in November 2019.

Tennessee Governor Names New Insurance Commissioner

Tennessee Gov. Bill Lee has named Carter Lawrence commissioner of the state Department of Commerce & Insurance.

Carter Lawrence

Lawrence most recently was the department's chief deputy commissioner and chief operating officer. He assumed his new position immediately.

Lawrence also has served on Tennessee's Economic Recovery Group throughout the COVID-19 pandemic, assisting efforts to reboot the state's economy. He briefly served as interim commissioner in 2019, following the departure of Julie Mix.

Capital Insurance Group Names Successor To Retiring President-CEO

Capital Insurance Group named Andy Doll to succeed Arne Chatterton as president and chief executive officer as of Jan. 1.

Andy Doll

Chatterton will retire after 30 years in the insurance industry. He joined CIG in March 2013 as vice president of field operations and business relations before being appointed president and CEO in 2014.

Doll most recently served as senior vice president and chief operating officer at CIG. He joined the company in 2014 as a chief actuary and was promoted to vice president and COO in March 2016. In November 2019, he was promoted to senior vice president.

Insurance Australia Group Changes Executive Team and Structure

Insurance Australia Group named Michelle McPherson as permanent group chief financial officer.

Michelle McPherson

McPherson has been acting group CFO since joining IAG in April. She has more than 30 years of finance experience across multiple industries.

The Australia division is now split into Direct Insurance Australia and Intermediated Insurance Australia. As a result, IAG CEO Australia Mark Milliner has left the company, the company said.

While an internal and external search is underway, Amanda Whiting, currently IAG executive general manager, consumer distribution, will be acting group executive for Direct Insurance Australia. Whiting has more than 20 years' experience in the insurance industry in both general and health insurance, having held senior roles in these industries, as well as telecommunications. Prior to her appointment to the acting Direct Insurance role, she was executive general manager, consumer distribution, in IAG's Australia division.

Julie Batch will act as group executive, Intermediated Insurance Australia, in addition to her current responsibilities leading IAG's strategy and innovation division.

Vindati Names Chief Executive Officer

Vindati, an insurtech managing general underwriter, has named Tyler S. Van Spanje, one of Vindati's co-founders, to succeed Hugh Burgess as chief executive officer.

Tyler S. Van Spanje

Van Spanje has served as chief underwriting and innovation officer since the company started. He is an underwriting professional with leadership, risk analysis and insurtech experience and has worked closely with

Burgess to build the Vindati platform, according to a company statement.

Prior to launching Vindati, Van Spanje was regional president inland marine for International Marine Underwriters (OneBeacon Insurance Group). His career has also included six years at Allianz Global Corporate & Specialty, where he was assistant marine head/regional underwriting executive/assistant vice president, marine underwriting manager, and senior underwriter.

In addition, he has served as director of inland marine at Acadia Insurance Co. and senior marine underwriter/marine team leader at Fireman's Fund Insurance Co.

Scor Names Chief Business Transformation Officer for Scor Global P&C

Myriam Moufakkir has been named chief business transformation officer for Scor Global P&C.

Myriam Moufakkir

In this new role, Moufakkir will be responsible for driving key operational aspects of the property/casualty business, with a focus on digital and data strategies, business process transformation, group projects and resource and budget management.

Moufakkir joins Scor from Axa, where she held several senior leadership roles—the latest being regional chief operating officer for Axa Asia in Hong Kong. She has more than 20 years' experience in the financial services industry and brings to Scor background in strategic alignment between business and technology, digital innovation and transformation, and strategies to accelerate growth and productivity, according to a company statement. BR

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Marketing Lessons From Asia

Content marketing, mobile communications and artificial intelligence challenge traditional approaches in rapidly developing markets.

by Lori Chordas

Companies have long been relying on performance and digital marketing to bolster their brands and build their businesses, but many are now "open to experimenting" with other methods—such as content marketing and artificial intelligence, said Vaasu S. Gavarasana, chief digital officer at Ageas India Royal Sundaram, featured guest in a Nov. 13 webinar sponsored by AM Best and the Insurance Marketing and Communications Association.

Vaasu S. Gavarasana

Gavarasana said an actual shift, however, has been somewhat slow.

There is still skepticism about the power and value of marketing, he said, but marketers are well-positioned to demonstrate how it is vital not only to building a brand, but also to generating revenue and aiding in digital transformation.

Following in an edited transcript of Gavarasana's comments.

What is the impression of marketing within your company?

When I joined, the only marketing being practiced was performance marketing. Since I joined, we expanded the role of marketing to include all the subdisciplines of marketing. It's been a long journey, but there's still an overriding perception that brand marketing is probably not so necessary. We've come some way on that journey, but we're not there yet. It takes more convincing to demonstrate the power.

There's a growing focus on content marketing. Is there a role for it in mobile?

Absolutely. I'm sure it's happening to a larger degree in the United States. Ad blocking is on the rise. Another problem marketers face is inflation. The cost of a click is going up. A lot of media is getting splintered. The best way to engage at a lower cost is search engine optimization. But SEO needs content, and social needs content. If you create contextual relevant content ... you can use it in your social and on your site to drive SEO, which means you're getting more organic traffic for a fraction of the cost, compared to what you would spend on performance marketing.

Performance marketing shows immediate results. Content marketing takes a bit more time to kick in. Today in India, we cut our spends in half because 50% of our traffic is organic, coming on the back of our SEO, which is coming through content we create for consumers. People don't want to engage with ads. Marketers engage with ads. People are hungry for information: "I'm not healthy. What should I eat?" "I need to protect my car. What do I do?"

How do you see digital marketing evolving?

I think the tug of war is going to be with [artificial intelligence], increasingly on the creative side. We have AI helping in performance marketing, which is welcome. Creating dynamic ads on the fly is also welcome. But I'm a bit skeptical about the human creativity being written by an AI, because creativity is not a formula. That's going to be the greatest tussle going forward, but I think AI is increasingly going to play a larger role in marketing. BR

AM BestTV

Go to *bestreview.com* to watch the webinar with Vaasu S. Gavarasana.

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

Zurich Pandemic Insurance Plan Modeled on Crop Program

The concept calls for reinsurance pools that would allow companies to choose how much risk they would keep, an element that differentiates the proposal from others.

by Timothy Darragh

Zurich Insurance Group has waded into the pool of industry-related groups developing plans for covering the next pandemic and has introduced a concept that follows the model of the federal crop insurance program.

The company said its plan, like others, starts with the premise that pandemics are uninsurable events without a significant role played by the federal government.

> "The program that we have today is not the crop program that we had almost a century ago. It's evolved over time as companies got comfortable with the risk."
>
> **Brandon Fick**
> Zurich North America

The proposal calls for reinsurance pools that would allow companies to choose how much risk they would keep, an element that differentiates Zurich's plan from others, Brandon Fick, chief underwriting officer at Zurich North America, said during a National Association of Insurance Commissioners virtual Fall National Meeting panel discussion.

Insurers could cede 100% of the risk back to the federal government, while others could keep a portion of the risk as they got comfortable with the program. The plan would be a dynamic one, changing with the demands of the marketplace, he said.

In that respect, the Zurich proposal models the federal crop insurance program, he said.

"The program that we have today is not the crop program that we had almost a century ago," he said. "It's evolved over time as companies got comfortable with the risk."

The risk pools also would meet Zurich's goal of recognizing that small businesses should not be treated the same as large ones.

"We don't want the larger companies to be sucking the capacity out of this program," Fick said.

Peter Caminiti, vice president and property technical director for Zurich North America, said the program would be mandatory for commercial property insurers so that coverage is widely available.

Rates also have to be heavily subsidized by the federal government so that takeup is high, Caminiti said. Otherwise, the government is stuck with the type of disaster relief programs that have been enacted since the COVID-19 pandemic struck, he said.

Choices of deductibles also would provide flexibility for policyholders, Fick said, adding plans should incentivize policyholders to mitigate their risk before the next pandemic strikes. BR

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

In the News

Regulatory Update

Best Interest proposal, COVID liability shield and reduced auto assessment.

Best Interest: Insurance trade groups support proposed rule amendments in Delaware that would hold insurers selling annuity products to a standard that puts consumers' best interests first.

The office of Commissioner Trinidad Navarro proposed the rule change that would follow the model updated in February by the National Association of Insurance Commissioners. The revisions clarify that all recommendations by agents and insurers must be in the best interest of the consumer, and agents and carriers may not place their financial interest ahead of the consumer's interest in making recommendations.

If the proposed regulations are adopted, agents (producers) and carriers must satisfy four obligations: care, disclosure, conflict of interest, and documentation, the proposed regulations said. The revisions also include enhancements to the current model's supervision system to assist agents (producers) and carriers in complying with the regulations, it said.

The proposal "would give retirement savers peace of mind that the information they receive from financial professionals about an annuity is in their best interest," American Council of Life Insurers President and Chief Executive Officer Susan Neely and National Association of Insurance and Financial Advisors-Delaware Government Relations Committee Chair Joshua Shaver said in a joint statement.

Regulatory Update

COVID Liability Shield: Florida Chief Financial Officer Jimmy Patronis ramped up a promised effort to convince state lawmakers to draw up and pass a bill establishing a COVID-19 liability shield for businesses.

"As a former small-business owner myself, I've spent most of my life in the restaurant industry and I know how hard it is to make payroll on a good day, much less when hampered by the financial impacts of COVID-19," he said in a statement following a rally in Orlando.

In May Patronis said he would push for a bill to "get Florida back to work by taking away incentives for lawyers to engage in predatory 'sue and settle' tactics, and shield small businesses from liability for COVID-19-related claims, while still allowing legitimate lawsuits based on 'reckless disregard for human life' to move forward."

Auto Assessment: The Michigan Catastrophic Claims Association has cut its annual assessment charged on automobile insurance policies by 14%, the second consecutive year the MCCA reduced the charge.

Michigan drivers had been paying the highest U.S. auto insurance rates until the implementation of provisions from a 2019 auto insurance reform bill, Gov. Gretchen Whitmer said in a statement.

The reduced assessment of $86 per vehicle will take effect July 1, 2021. Before the reform measure, the assessment was $220 per vehicle. Additional provisions, including the personal injury protection medical fee schedule, will take effect in 2021, Whitmer's office said.

Erin McDonough, executive director of the Insurance Alliance of Michigan, said legislators need to let the law stabilize the marketplace.

Major League Baseball Sues Over COVID Coverage Denials

MLB Commissioner Rob Manfred's office, 30 ball clubs and MLB affiliates seek billions of dollars from lost ticket sales, sponsorships and advertising revenue.

by Timothy Darragh

Major League Baseball and its 30 teams have filed suit against three insurers that denied claims for billions of dollars in COVID-19-related losses stemming from lost ticket sales, corporate sponsorships, merchandise sales, special events and advertising revenues.

MLB Commissioner Rob Manfred's office, the ball clubs and MLB affiliates in October filed the suit in California Superior Court in Alameda County against AIG Specialty Insurance Co., Factory Mutual Insurance Co. and Interstate Fire & Casualty Co.

The complaint said the plaintiffs purchased "top-shelf all risks" policies, with Factory Mutual covering 60% of the insurers' total limits of liability, AIG covering 30%, and Interstate covering 10%.

The policies cover up to $1.6 billion in losses for any one occurrence, "and potentially much more for losses involving multiple occurrences," it said. The insurers refused to cover any of the claims as of the filing of the lawsuit, it said.

> The policies cover up to $1.6 billion in losses for any one occurrence, "and potentially much more for losses involving multiple occurrences."
>
> **Major League Baseball Lawsuit**

The plaintiffs argued they suffered direct physical loss caused by the presence of the virus at each of the stadiums, and each incurred significant expenses in disinfecting their facilities. None of the policy exclusions preclude coverage for losses or damage due to communicable disease, the lawsuit said.

In addition, the insurers specifically chose not to include virus exclusion language that had been developed by the Insurance Services Office, it said. Instead, the policies' contamination exclusion refers to "virus" and to a "disease-causing or illness-causing agent," but not to communicable disease, which is "expressly covered," it said.

"FM Global values the long-term relationships we have with our policyholders, and we are proud in leading the industry for claims service," said Steven Zenofsky, assistant vice president, public relations, FM Global. "It is unfortunate when legal matters arise, because we strongly believe our insurance policies are clear on the coverage provided."

Allianz, the parent company of Interstate Fire & Casualty, had no comment. Attempts to reach AIG were not immediately successful.

The threat of the virus caused Major League Baseball to play only 37% of games scheduled for the 2020 season, with virtually no fans in the stands, the suit said. BR

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

An Insidious Risk

Technical debt is like a leaky pipe waiting to wreak havoc on a homeowner.

By **Bill Pieroni**

Insurers, obviously, are in the risk management business. There is no other industry better equipped to identify, understand and mitigate risk. However, a troubling number of insurers continue to ignore one of the most profound risks to their own business—technical debt.

Every year, ACORD assesses the state of the industry globally. One area we consider is the level of digital maturity at the carrier level. In 2020, as in previous years, we found that the top tiers of digitally mature insurers materially outperformed their less-digitized competitors across growth, profitability and shareholder returns. They largely achieved this by systematically investing in technology, aligned with strategic intent, for extended periods of time. Notably, it wasn't just the scale, or duration, of this investment that mattered. These insurers also had a keen understanding of exactly how and where to invest.

Potential investment areas across the enterprise can be examined along two dimensions: value potential (creation vs. destruction) and investment tangibility (explicit vs. implicit). It is relatively easy to allocate resources to optimize the impact of value-creating explicit capabilities like underwriting or claims software. However, sustainably investing in high-value potential, implicit capabilities is where most resource allocation mechanisms fail. Research indicates that for a significant number of carriers globally, architecture and infrastructure investments are regularly deferred, creating significant risk in the form of a technical deficit.

The more explicit the capability issues or opportunities are, the easier it is to identify and resolve them. Because explicit capabilities are often monitored across common metrics, they make their presence relatively obvious. High-performing, digitally mature insurers engage in a more continuous and thorough technology assessment process. This supports the identification of, and investment in, value-creation opportunities across both explicit and implicit areas.

Value-destroying implicit capabilities—what we call technical debt—are a much more insidious danger. Unlike explicit deficiencies, they

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often accumulate unnoticed over time. Because these are not the sort of liabilities that show up on balance sheets, they do not regularly draw the attention of leadership or shareholders—especially given the pressure to produce near-term results.

In fact, technical debt can be tempting to ignore. Reducing expenses by underinvesting in architecture and infrastructure can provide a near-term income statement benefit. This makes technical debt an even more pernicious danger, as it creates a false sense of security and success which masks the true risk. At some point, the accumulated technical debt will reach an event horizon—a point where the time, scope and resources required to address it are simply too great.

Insurers who allow themselves to accumulate technical debt are like homeowners who ignore their failing pipes until they burst and flood the house beyond recovery—unlike their neighbors, who took on the (ultimately lesser) financial burden of maintaining their pipes properly. Put another way: Would you pat yourself on the back for saving money by avoiding regular oil changes—after all, the car seems to be running fine without them—until the engine fails and you're facing a much more expensive problem?

Successful insurers sidestep the "boom and bust" cycle of IT spending, and invest continuously and systematically for renewal, stewardship and long-term positioning. By avoiding technical debt, they are able to reap the benefits of digital maturity. BR

Customers First

Insurers must offer quality customer service—especially during a hard market.

By Lance Ewing

A man walks into a small bookstore and asks the clerk for something on exemplary customer service. The employee sighs, looks up wearily and grumbles: "Yeah. Customer service books are somewhere in the back stacks. I'm sure you'll find them." Or so the story goes.

In the current hard property/casualty insurance market, risk professionals are dealing with increased premiums, limited capacity, higher deductibles and, in some cases, less customer service from their carriers. For risk managers experiencing their first hard market, the lack of customer service could be a tougher pill to swallow than the premium rate increases. For longtime risk professionals, there is an understanding of customer service expectations during upside and downside market cycles.

Carriers know it takes so much more effort to land a customer than to retain one. Here's a retention tip: Clients seek loyalty from insurers through exemplary service, even in tough market conditions. Respectively, if the carrier demonstrates loyalty and stays with the client, the client should not shop around its policies and premiums each time the market firms. Reasonable customer expectations can grow excellent customer service by carriers.

Honest and open communication drives customer expectations as well. Carriers must adapt their messaging to clients and brokerage partners and not create a shroud of silence that only lifts near renewal time. As Jessica Lyons, director of insurance for Treasure Island Hotel & Casino in Las Vegas, said: "Communication with policyholders drives customer service. During this time of concern and worry, communication is paramount. The world has changed, and trust matters more now than ever. Carriers must become more client-centric, and center on relationships which can influence the difference between loyalty and potential lost business."

When rates are going up, and limits and available cover are going down, insurers can provide not just communication but innovation as well. Whether by a new coverage, a new endorsement or a technology enhancement, a

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carrier demonstrates customer service by being groundbreaking in this hard market.

Technology innovation is a key part of the customer service experience that insurance purchasers really want. Jonathan Price, senior director of risk and insurance, Main Event, said: "For me, the carrier-client partnership is driven by service and technology. These are critical and lasting components of the relationship between a carrier and myself as the risk manager. If a carrier can show … innovative opportunities for improvement, and develop strategies specifically for my company, then the partnership will be strong, not just now but in the future."

Insurers are embracing innovations such as a client virtual assistant or advocate to help the customer and the agent/broker with claims, policy questions and renewal submissions via websites, smart phones and social media sites.

Now is a good time for insurers to focus on courtesy. It sets the tone and reminds risk managers why they do business with their insurer. Saying thank you—whether that's by voice, email or Zoom—after a renewal (even a difficult one) is one of the smartest, and simplest, ways to maintain and build carrier-to-client customer service.

To paraphrase poet and civil rights activist Maya Angelou: "Clients will soon forget what you charged them. But they will NEVER forget how you made them feel." The hard market will end, and risk professionals will remember which carriers were customer-oriented and which were not. That memory does not fade with time. BR

Election Effects

A Biden administration might signal the return to a dual regulatory dynamic for insurers.

By **Howard Mills**

Recent presidential elections have created a pendulum effect—dramatic reversals of policy and direction—with each new administration. So too has it been for regulation, particularly of the financial services industry since the financial crisis of 2008. President-elect Joe Biden's incoming administration seems certain to reverse the deregulation of the Trump administration, and the insurance industry may again find itself challenged by a dual regulatory system.

Through eight years of the Obama administration the federal government focused on strict oversight of the nation's financial system. The Dodd-Frank Act created agencies and offices, and the Obama administration filled these regulatory and oversight bodies with people who were energetic and muscular in their oversight. While our state-based insurance regulatory system was never supplanted by the feds, we did see a dual system develop for insurers large enough to be designated a Systemically Important Financial Institution (SIFI) by the Financial Stability Oversight Council (FSOC).

SIFI insurers retained their state regulators but now had an additional layer of federal oversight and the accompanying additional capital reserving requirements. At this time, the FSOC was very activist, and the expectation was that the SIFI designation was expanding. This impacted things like M&A activity, as a significant acquisition would invite scrutiny from the FSOC to determine if the new entity met SIFI standards. Likewise, insurers that had a bank holding company or a thrift were subject to the state-federal regulatory dynamic. The Federal Insurance Office was very active, particularly in the international arena, where it took seriously its charge under Dodd-Frank to be the international voice of the U.S. insurance regulatory system. This sometimes complicated efforts to present a unified front at the International Association of Insurance Supervisors.

For the past four years the dynamic changed dramatically. The FSOC stopped exploring new SIFI designations, then declassified existing ones. Today no insurers are so designated, and the FSOC has been quietly studying an activities-based approach to supervision. The Federal Insurance Office has been more in line with the "Team USA" approach of a strong NAIC-led international posture with the feds as

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partners. There was no concern about regulatory creep by the feds onto the turf of state regulators, who were recognized as the historic and proper regulators of the country's insurance industry—and largely left alone.

The regulatory environment is certain to experience a pendulum swing back. While a Biden administration may be constrained by a divided Congress, regulatory agencies wield enormous power given their ability to write and interpret rules and decide how strictly to enforce them. For example, the Treasury secretary could direct the FSOC to resume SIFI designations for insurers. The Federal Insurance Office could be directed to lead the way on issues such as international capital standards and the effects of climate change on the insurance industry. Biden's secretary of labor could revive the Department of Labor fiduciary rule, putting the feds back into the business of strict oversight requiring that best interests of the consumer be the only motivation behind the sale of financial products. The DOL fiduciary rule was set aside when the Trump administration came in, and the states, notably New York with its Regulation 187, picked up the baton on consumer best interests and suitability standards, with little interference or competition from the feds.

Proponents of stricter oversight say the time has come for the pendulum to swing back. How much change is coming is uncertain, but the likely result is an activist federal government seeking to rein in the Trump era deregulation of the financial system, and this will impact the insurance sector as well as banking. This may lead to friction with state regulators and a return to the dual regulatory dynamic, at least for large and global insurers. BR

The Great Unknowns

Workers' comp insurers face many uncertainties around COVID-related claims.

by Timothy Darragh

Surges in COVID-19 cases, questions about an economic rebound and uncertainty about the long-term effects of the virus will keep workers' compensation insurers on their toes in 2021, according to observers.

The major question surrounding workers' comp is whether the economy can bounce back from massive job cuts that took place when the virus exploded across the country, said Jeff Eddinger, senior division executive at the National Council on Compensation Insurance. Because of lower payrolls, overall claim volumes are down, he said, adding the NCCI is only now getting data from March and April.

Eddinger said after years of "unprecedented good results" in workers' comp, carriers were in good shape to handle COVID-19 claims this year. "The industry is well positioned to address this even without the fact that regular claim volumes are down," he said.

For the month of October, Florida recorded 7,978 total indemnity claims in 2019, compared with 2,625 in 2020, according to the latest COVID-19 monthly report from the state Division of Workers' Compensation. The division said Florida workers' comp claimants in 2020 had 23,452 COVID-19 indemnity claims paid through October, and 10,471 denied or partially denied, it said.

But in Texas, workers' claims were up 22% for the period of January through August 2020, compared with the same time in 2019, its state Division of Workers' Compensation reported.

As of Sept. 27, 2020, the Texas division said, insurance carriers reported more than 25,000 COVID-19 workers' comp claims and 100 fatalities. According to the report, the professionals most heavily hit were first responders and corrections workers.

Insurers accepted 48% of claims filed by those with positive tests for COVID-19, it said.

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The results by states will be impacted by decisions in some jurisdictions to give essential workers the presumption that their infections occurred while on the job, said Jim Lynch, chief actuary and senior vice president of research and education at the Insurance Information Institute.

This past September, California Governor Gavin Newsom signed a bill creating two presumptions: one specific to frontline workers such as peace officers, firefighters, health care providers and home care workers, and a general presumption for employees who contract COVID-19 in the midst of a workplace outbreak.

As in other states, California saw cases peak in July with 14,658 first reports of COVID-19 injury, according to the state Division of Workers Compensation. They fell to 3,503 in October, giving the state a running total of 53,072 claims and 15,919 denials through mid-November, it said.

While a number of states expanded presumption rules to cover first responders and frontline health care providers, some "adopted more expansive categories of workers entitled to compensability presumptions related to COVID-19 exposures," Employers Holdings President and CEO Douglas Dirks said in an earnings call.

"These changes will have a negative impact on ultimate losses for the workers' compensation industry, although we continue to believe our exposure to additional losses from enacted changes are likely to be less impactful given the classes of business we write," said Dirks.

The NCCI is working with a modeling firm to determine future risks, Eddinger said. "We're experts in rate making. We're not experts in infectious diseases," he said.

But with infections surging across the United States, workers' compensation claims obviously will follow. "I think as unemployment benefits and eviction and mortgage moratoria expire, desperate employees or former employees will have every incentive to file workers' compensation claims if they are suffering from COVID," said Michael C. Duff, professor of law at the University of Wyoming. "Furthermore, in states that aggressively reopened and are currently experiencing virus-spiking, I think we are going to see many more claims."

Even if vaccines are swiftly developed and deployed, Lynch said, it will take time for workers' comp insurers to rebound, since hiring is generally the last step businesses take as they recover.

"I think as unemployment benefits and eviction and mortgage moratoria expire, desperate employees or former employees will have every incentive to file workers' compensation claims if they are suffering from COVID."

Michael C. Duff
University of Wyoming

For 2021 and 2022, he said, the III projects workers' comp growth of 3% both years, compared with 7% and 6%, respectively, for other lines of insurance, he said.

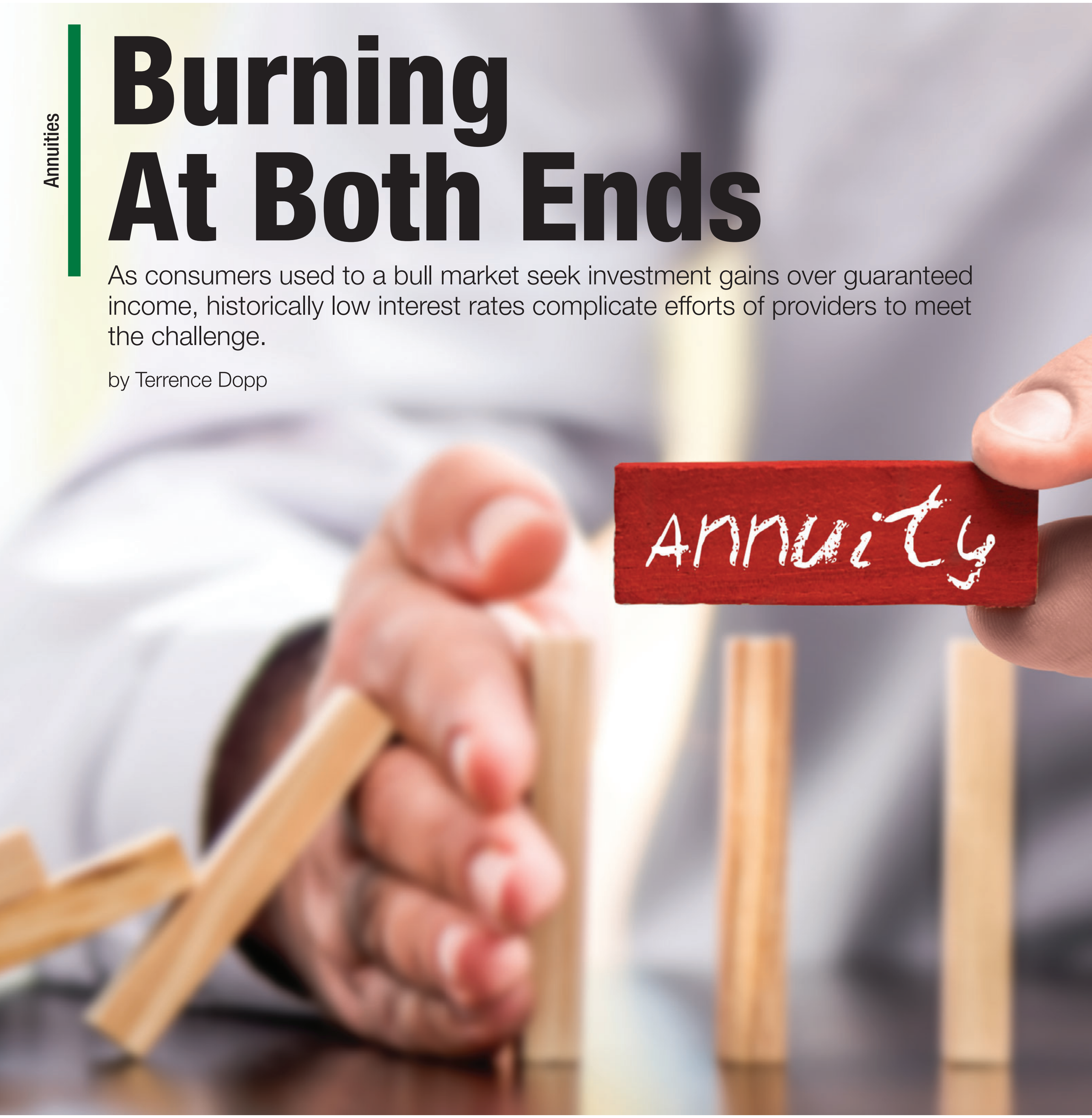
Scott Lefkowitz, a partner at the consulting firm Oliver Wyman, said he is more concerned about the "unquantifiable" long-term future risks for insurers.

"The risk that you have now is that we really don't know what the long-term impact of these claims will be on people who get it," he said. "Are new disabilities going to arise that can trace back to this disease? If that's the case, that's a workers' compensation claim because the insurer will own that claim forever." BR

Burning At Both Ends

As consumers used to a bull market seek investment gains over guaranteed income, historically low interest rates complicate efforts of providers to meet the challenge.

by Terrence Dopp



Profit vs. safety. It's an age-old question in the financial services industry.

And now it's getting renewed attention from both consumers and the annuity industry as the country continues to endure the COVID-19 pandemic and faces the threat of additional economic fallout before vaccines can help mitigate the problem.

What can be an annuity's greatest selling points—safety, income and accumulation—can also be its greatest drawbacks after decades of falling

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Key Points

Consumer Behavior: More than 10 years of growth in equities markets has consumers looking to annuities to capture more of the market upside than they would have sought in the past.

Provider Behavior: Low interest rates have forced insurers to reprice income annuity products—making them less attractive to consumers—or curtail the instruments altogether.

Filling the Breach: Registered index-linked annuities are becoming the preferred choice for both alpha-seeking consumers and companies looking to cut their interest-rate exposure.

interest rates that now hover at historic lows.

The annuity industry has long been viewed as a low-risk place to park money. With interest rates so low, insurers are in some instances shifting their product lineup—in part because of the investment climate, but also in response to consumer demand.

The markets that have gone up and up following the 2008 financial crisis have whetted consumer appetites for risk. But providers are finding themselves squeezed by the current low interest rates as they pay out guaranteed returns with a smaller amount of investment income. As a result, the market is often seeing a shift from older income-generating annuities such as immediate income and guaranteed offerings, to newer options such as registered index-linked annuities that move with markets and focus on accumulation.

In fact, registered index-linked annuities, also called RILAs, were the bright spot for the market in 2020, according to data compiled by the Secure Retirement Institute.

According to the most recent U.S. Individual Annuity Sales survey, estimated sales of all types of annuities were $55.3 billion in the third quarter, a jump of about 14% from the second quarter but still 7% lower than the prior year.

So-called income annuities slumped through 2020 as record-low interest rates cut into their income, the very value proposition they offer. The SRI projects these instruments will have fallen more than a third in 2020.

In the first three quarters of 2020, sales of fixed indexed annuities—which often contain riders providing income—were $41.4 billion, off 27% from the prior year. Total sales of $13.2 billion for the class in the third quarter were down by 29%.

Fixed immediate annuities, the bedrock of income annuity products, had their lowest quarterly sales in 16 years, with $1.4 billion sold in the period. That marked a 39% drop from the same period in 2019, according to SRI estimates.

By contrast, the SRI report found sales of RILAs,

"There's clearly some movement away from interest-sensitive products. … It's a combination of market-driven—meaning movements that have made products less competitive in certain cases—and companies trying to de-risk or avoid interest rate exposure."

Thomas Rosendale
AM Best

which contain features common to both fixed index and variable annuities, were up 31% to $6.3 billion. RILAs offer more upside potential than their fixed cousins, with the caveat that policyholders must be willing to absorb some set risk of loss.

"For us, RILAs are the majority of our sales right now," said Dave Hanzlik, vice president of annuity and retirement solutions at CUNA Mutual Group. "People are looking for safety and security, but they do want upside potential. It's a low interest rate environment, but they still need to grow their retirement savings."

The impact of COVID-19 goes beyond canceled school and entertainment events. It's trickled into every corner of people's lives and bank statements. It's remote work for those lucky enough to have a job that wasn't furloughed, and preparation for stock market volatility.

In fact, every U.S. state but four—Michigan, Arizona, Florida and Arkansas—saw greater drops in gross domestic product during the first half of 2020 than they did in the Great Recession over a decade earlier, a University of New Hampshire report found. Even for those outliers, it wasn't so much they made any great shakes or wise decisions this time around, but that they had fallen so far and so fast the first time.

Battered by years of low interest rates that have crimped profits, providers in the recent past have moved to close some products, raise fees, introduce new variable annuity products and even shed some blocks as the industry evolves. Along with fixed annuities, the trend has applied to the guaranteed income riders that are often attached to variable annuities. Buying products with them has become more expensive, so demand has shifted.

"In this market those are very expensive to hedge, and it becomes even more so in times of volatility and low interest rates," said Scott Hawkins, director of insurance research at global investment management firm Conning. "That's why you've seen companies get out of variable annuities. Over time, those benefits that are available cost more to the consumer, and they're not as robust or rich as they were say, 10 or 15 years ago."

Take Prudential Financial Inc.'s newest offering: the FlexGuard variable annuity product. Like the aforementioned RILAs, FlexGuard's buffer is designed to help protect against losses. The company said in November it saw $1 billion in FlexGuard sales in its first six months to make it the fastest-selling product of its kind; it accounted for 38% of all annuity sales in the third quarter.

In November, Prudential Chief Executive Officer Charles Lowrey said the company was on a path to de-risking and was pivoting in both its annuity and life insurance businesses. He said his company was discontinuing the sale of traditional variable products with guaranteed living benefits and may consider shedding or reinsuring some of its life and annuity business as it shifts from income guarantees to products that are less sensitive to low interest rates.

These competing desires for both the potential benefits of market growth and a buffer against investment loss have translated into a consumer behavior shift that has driven increasing movement toward products such as FlexGuard, Dylan Tyson, president of Prudential Annuities, said in an email.

"We continue to see customer demand shift away from traditional variable annuities with guaranteed living benefits to products that offer a degree of downside protection along with clear growth potential, provided to them with no explicit fees on the indexed crediting strategies," Tyson said. "This consumer demand aligns with the approach annuity issuers are taking today in pivoting toward a portfolio that is more resilient to a low interest rate environment."

Thomas Rosendale, a senior director with AM Best, said, at the same time some in the industry have announced moves to curtail annuity products most impacted by rock-bottom interest rates, other companies have been forced to reprice annuity products to the extent that securing income isn't cost-effective for consumers, so they've forgone the products.

RILA structures can vary, meaning customers at times can be offered the option to absorb the first percentage of any prospective losses—or have their providers exposed for the first losses up to a set threshold, leaving them on the hook for anything beyond the determined amount. What generally don't come are guaranteed income riders, which have grown less attractive amid the repricings, he said.

"There's clearly some movement away from interest-sensitive products both by design and out of necessity," Rosendale said. "It's not just customer-driven. It's a combination of market-driven—meaning movements that have made products less competitive in certain cases—and companies

"In this environment, potential clients are looking at interest rates, and they want a more attractive return. So they're willing to trade some risk for investment return."

Scott Hawkins
Conning

trying to de-risk or avoid interest rate exposure."

In the two decades from 2000 to 2019, 175 life insurers became impaired, according to AM Best data. Of those, 11 were engaged primarily in selling annuities. Three of those involved investment losses.

That move toward de-risking was on display in the October announcement that Venerable Holdings Inc. entered a deal with Equitable Holdings Inc. that will see it reinsure $12 billion in legacy annuity business and acquire Equitable's Corporate Solutions Life Reinsurance Co. unit, doubling its managed assets, Venerable said in a statement.

The reinsured variable annuity business, sold by Equitable between 2006 and 2008, is mature, stable and predictable, Venerable said. Venerable's general account assets will more than double from $11 billion to $24 billion, and reinsured business will increase to more than $46 billion in separate account value.

The transferred block will represent about a third of Equitable's fixed-rate guaranteed minimum business, or 13% of the total variable annuity policies in force as of June 30, AM Best said in an Oct. 28 commentary on the transaction. It's expected to create an estimated $1.2 billion of value on a statutory accounting basis, through an $800 million capital release, approximately $300 million of consideration paid by Venerable, and a $100 million tax benefit.

Also in October, American Equity Investment Life Holding Co. and two other companies said they will form a strategic partnership to establish a Bermuda company to reinsure $5 billion of American Equity fixed index annuity liabilities. Under the terms of the agreement in principle between American Equity, Värde Partners and Agam Capital Management LLC, Värde will establish the reinsurer.

Hawkins, of Conning, said not every firm is capable of marketing its own RILA products for technical reasons, but those that do will grow their presence in the market. The question is exactly how much share they hold and how much they want to have within the RILA space.

"On the one hand they're protecting themselves by saying 'Look, we'll absorb 5%, 10% of the loss, and beyond that you're on the hook Mr. Policyholder, but in return you get a bigger piece of the upside,'" Hawkins said. "In this environment, potential clients are looking at interest rates and they want a more attractive return. So they're willing to trade some risk for investment return."

He sees the Equitable deal with Venerable as an important benchmark to watch for changes within the industry. He said the current climate is giving rise to "liability consolidators."

"One of the things we're looking at is this sort of changing of the underlying business model—at least in the annuities space—to be the insurer as the manufacturer and distributor of the product, and then finding other partners to manage and handle the investment risk," Hawkins said.

Don't count annuities out just yet, CUNA Mutual Group's Hanzlik said.

"We've been in a bull market. That makes the value of guarantees a little more difficult to conceptualize," Hanzlik said. "Bull markets can lead to more of a focus on solutions that have more upside potential and [are] less focused on protection. We're definitely anticipating more and more growth." BR

Step By Step

The insurtech sector has grown and evolved since its early days in 2015-2016. Some of the companies, now several years old, have developed to the point they are pursuing initial public offerings and seeking out mergers with each other as well as with larger traditional insurers. Other companies are still building their operations as they develop solutions to industry problems. In the January issue, *Best's Review* examines the insurtech sector and speaks with top executives at insurtechs such as Discovery Ltd., which developed a rewards-based health insurance model; Blink, a parametric technology company; Metabiota, an insurtech that tracks epidemics; and Thimble, a provider of online business insurance—as well as with insurtech accelerator Lloyd's Lab.

Contents

Turning a Corner

Insurtechs go through a wave of consolidation and in some cases merge with each other as they move into their next stage of development.

by Terrence Dopp

As someone with an eye on the burgeoning insurtech world, Adrian Jones sees a parallel between the startups that attempt to merge technology with the world of insurance, and the U.S. auto industry.

Through the Great Depression, there were as many as 300 U.S. auto manufacturers. But by the 1960s, the Big Three in Detroit controlled 90% of the market, after others died or were gobbled up by competitors.

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Key Points

Situation: Insurtechs are attracting big investments, going through mergers and launching IPOs.

Reason: The deals are spurred by the need for new technology and capabilities, in part highlighted by the COVID-19 pandemic.

Funding: Worries persist about excess capital artificially pushing up valuations for fledgling companies.

Similarly, it's only been a few years since the word insurtech became part of the industry's lexicon. Yet today, said Jones, deputy chief executive officer of P&C Ventures for Scor, a current round of mergers and acquisitions in that space seems to follow a similar path as those earlier auto companies.

It's partly a coming-of-age story. It's also a tale of a large number of companies, most focused on solving specific problems rather than being self-contained carriers in their own right, he said.

"You're at the age where the girls are taller than the boys, but some of the boys have beards and deep voices and some are still squeaky and quite boyish," Jones said. "You're starting to see more variation amongst the insurtech companies. Investors are forcing some of that distribution as well, because they are plowing enormous amounts of money into the growth stages of what they believe to be highly successful companies."

As an example he cites managing general agent and property/casualty carrier Hippo Enterprises.

The company in November saw a $350 million investment from Mitsui Sumitomo Insurance Co. Hippo also recently acquired former partner and fronting carrier Spinnaker Insurance Co. in a deal that expanded its geographic footprint.

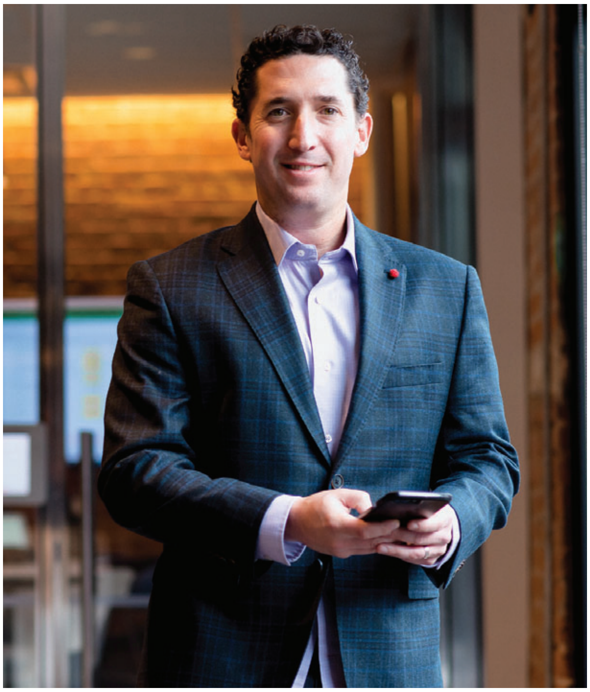
The common theme, Jones said, is that capital markets are bursting at the seams. Couple the availability of investment dollars with the maturation of insurtechs, and you get an environment ripe for incumbent players to put their money where they think it will pay serious dividends.

"It's going to become an active space soon because it's at that point in its maturity cycle," Jones said. "Investors are going to start putting money toward the winners. People are going to want to start taking money off the table as well—both founders and investors. For many, what better way to do it than monetize the asset through a trade sale."

P&C Ventures has deployed €40 million (US$49 million) into the market since it was created with an eye to creating the insurers of the future by investing in technology companies that benefit Scor and its customers.

Buy or Sell?

Roughly five years ago the first wave of insurtech startups hit. As that class has grown up, mergers and acquisitions have become common. Some companies were bought, others used M&A to find scale, and a few clawed their way to stand-alone status.



"When I think about the M&A space, what I think is most interesting is that it's now insurtechs thinking about acquiring and being inquisitive as opposed to where it was historically."

Jay Weintraub
InsureTech Connect

The traditional M&A model goes something like this: Scrappy insurtech identifies a problem with the conventional insurance model, develops a fix, then gets scooped up by a legacy carrier.

Consider the acquisition of CoverWallet by Aon plc, the second-largest global broker in 2019 with $11 billion in total revenue, according to *Best's Review's* Top Global Insurance Brokers ranking. Aon said the deal would expand its footprint in the growing smaller-business market through CoverWallet's technology and data analytics.

Yet something else has been happening: The babies have grown up and have their own plans now.

In October, commercial lines insurance platform Bold Penguin agreed to acquire RiskGenius in a deal that brings together two

“Investors are going to start putting money toward the winners. People are going to want to start taking money off the table as well—both founders and investors. What better way to do it than monetize the asset through a trade sale.”

Adrian Jones
Scor

insurtechs. The deal—no terms disclosed—was the second acquisition this year for Bold Penguin and brought together that company's focus on using technology to expedite quoting and bidding for small commercial agents with RiskGenius's expertise of using artificial intelligence to analyze policy language.

Past deals speak for themselves. In 2017 Allstate Corp. closed a $1.4 billion acquisition of personal device warranty provider SquareTrade. Prudential Financial Inc. in 2019 paid $2.35 billion to purchase direct-to-consumer platform Assurance IQ, a move it said would expand its margins by as much as $500 million by 2022, as well as bring cost savings of $50 million to $100 million.

Along the same lines as the Aon and Prudential deals, broker Brown & Brown Inc. in November said it would acquire substantially all assets of insurtech CoverHound to ramp up customized quoting. The firm said it intends to operate CoverHound, which was founded in May 2010, as an independent subsidiary.

Also that month, Root Inc. launched its initial public offering, with both a selling price and number of shares that were higher than announced in advance of the IPO. It was an example of an insurtech being able to stand on its own.

Perhaps the most high-profile example came in the form of Lemonade, the insurtech that focuses on renters and homeowners insurance. In July, the company raised its target price for an IPO expected to generate as much as $319 million.

Jay Weintraub, chief executive, founder and connector at InsureTech Connect, said that in 2016 through 2019, the new industry made headlines primarily through a round of large-scale funding injections. In 2019 and early 2020, it entered a phase of M&A transactions driven primarily by incumbents, but by the second half of 2020 some insurtechs had become large enough to be the ones with hungry eyes.

“If we think historically about M&A in the insurtech space, you think of these large one-off deals,” said Weintraub. “When I think about the M&A space, what I think is most interesting is that it's now insurtechs thinking about acquiring and being inquisitive as opposed to where it was historically.”

Injecting Reality

Not everybody sees only upside.

Robert Hartwig, director of the Center for Risk and Uncertainty Management at the University of South Carolina's Darla Moore School of Business, said the interest in many insurtechs by incumbent insurers is tantamount to outsourcing their research and development functions.

The insurtech space, like all startup sectors, is Darwinian in that most will fail and very few will reach IPO status. Fewer still will become a unicorn—a privately held startup with a valuation over $1 billion. Along with

"It's simply not the case that when you have a record number of deals that each new additional entrant is bringing the same degree of innovation that earlier entrants brought. That's just how capitalism works."

Robert Hartwig
University of South Carolina's Darla Moore School of Business

the aforementioned auto industry, he points to waves of consolidations and mergers throughout history in industries such as telecommunications, railroads and airlines.

He cited a record 104 funding rounds in the insurtech sector during the third quarter of 2020 that totaled about $2.5 billion as proof of just how frothy the market has gone. In many cases, the valuations of the companies are not sustainable, according to Hartwig.

"As the number of insurtechs proliferate, almost by definition the marginal degree of innovation with each one diminishes," Hartwig said. "It's simply not the case that when you have a record number of deals that each new additional entrant is bringing the same degree of innovation that earlier entrants brought. That's just how capitalism works."

Hartwig's view isn't a blind skepticism of the insurtech space. He points to Lemonade.

The company posted a $30.9 million net loss for the third quarter, compared to a $31.1 million net loss a year earlier. Despite these losses, the company's share price has more than doubled since its July IPO, and its market capitalization as of Dec. 1 exceeded $3.5 billion.

Pradip Patiath, who tracks technological and other disruptive developments as a senior partner of McKinsey & Co.'s global digital financial services team, said incumbent firms turn to M&As for several reasons: to acquire a "bolt-on" capability they don't have, to expand geographically, to pivot to businesses with higher multiples, to defend against a competitor, or to gain scale.

The urgent need to expand technology capabilities in the current pandemic has accelerated the trend, he said. Companies are doubling down to make sure five-year plans to go digital are substantially sped up.

"Most insurance companies are awash in capital," Patiath said. "All of a sudden in this moment of COVID-19, people have started to say, 'What can I do to buy a bolt-on capability?' If you look at all the M&A that's happening in insurtech, a lot of it by count is bolt-on capabilities."

In some instances, he said, the consolidation is driven by private equity firms that have assets within their portfolios and see companies that are unlikely to make it separately, but by combining them, they are able to make a better combined business model or proposition. The model of this transaction, he said, doesn't lie in purely combining to make it A plus B, but rather in a bet that A plus B will equal A-squared.

"On one hand you've got buyers with deep pockets and on the other end, you've got newer attackers with the realization that the organic build is a much more circuitous and tortuous route to go," he said. "I don't think that insurtechs have, yet, reached a level of maturity. But they play a very important role in pushing boundaries, creating new frontiers, innovating fresh models."

The need to capture a larger piece of the market is also driving the rush toward M&As, he said.

Jones, of P&C Ventures, said the movement in the number and size of transactions isn't hard to figure out. And skyrocketing price tags make sense.

"Valuations are quite robust right now. That's for a very valid reason," he said. "Growth is hard to come by in our business, whereas capital is very easy to come by." BR

A Healthy Dose of Reality

Discovery Limited's founder and CEO Adrian Gore talks about understanding behavioral biases around wellness and incentivizing related lifestyle choices, especially during a pandemic.

by Lori Chordas

Key Points

Journey to Good Health: In 1992, Discovery Limited was created to make people healthier and create a delivery model that is fundamentally different from traditional insurance models.

A Bitter Pill: COVID-19, which has revealed inefficiencies in global health care models, is magnifying lifestyle-related risk.

Side Effects: The pandemic is driving improved behaviors such as healthier eating.

Exercise has always been a passion for Discovery Limited founder and Chief Executive Officer Adrian Gore. He once took an already grueling travel schedule and added stair running—in hotels and airports and between meetings in his office.

Gore credits that exercise and healthy living with energizing his body and mind, helping to fuel his innovative spirit, which has resulted in several groundbreaking ideas in insurance.

In 1992, Gore—just 28 years old—created a unique rewards-based health insurance model to improve individuals' wellness and enhance their lives.

He put up some of his own money and raised startup capital from Rand Merchant Bank. That allowed him to begin the groundwork for what has become a diversified, multinational financial services provider of asset management, savings, investment and employee benefits, and long- and short-term insurance through its various brands.

Today Discovery impacts more than 46 million lives in 24 markets. The insurtech made a global name for itself with its Vitality business model, which rewards members with inexpensive flights, discounts and other perks for meeting health goals and making positive lifestyle changes such as increasing physical activity, eating more healthfully and getting annual preventive screenings.

Over the years, some of the world's largest insurers, including Ping An in China, Manulife in Canada and

Photo courtesy of Adrian Gore

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Vitality
RUNNING
WORLD CUP
WORLD CUP

John Hancock in the U.S., have incorporated the Vitality model into their own operations and are benefiting from its network of rewards partners, actuarial data and technology tools.

While Discovery remains on the bleeding edge of innovation to improve individuals' health and drive down health care costs, the company—like its peers all over the world—has faced an unprecedented challenge in COVID-19. And as the coronavirus continues to spread, it is uncovering inefficiencies in care models.

But Gore is no stranger to challenges in the health care system. When he began his career as a life insurance actuary in his homeland of South Africa, the nation was heavily burdened by high disease rates, an undersupply of medical workers, and racial inequalities. But as he has learned from that experience and others, in the midst of difficulty often lies opportunity. Today South Africa has a well-developed two-tier health care system, world-class medical professionals and a burgeoning demand for health care innovation, given the diverse needs of its population.

Best's Review spoke with Gore about the genesis of his company, the power of innovation, the challenges COVID-19 is posing to global health systems, and the importance of incentivizing health and wellness in the midst of a pandemic.

How did the idea for Discovery come about, and how is the insurtech using innovation and behavioral science to create a shared value insurance model that rewards individuals for healthy behaviors while driving down health care costs?

When we started Discovery in the early 1990s, there was a clear need for a sustainable approach that integrated traditional medical aids and health insurance. That was the embryo for our vision of building an actuarially sound health insurance organization focused on demand-side management—namely, making people healthier.

At the time, behavioral economics wasn't a well-known field, but we had an intellectual hunch that we could incentivize people to adopt healthier behaviors and embed that into our business model. Over time, the data and results confirmed that hunch. We came to understand that people's behavioral biases around wellness, such as putting off that run or healthy food choice, acted against their own best interests, and we sought to nudge people in the right direction through a behavior change model called Vitality.

The Vitality model is unique in that it prices the value created through behavior change into the cost of insurance. It provides clients with personalized goals, rewards them for meeting goals, captures the economic value created or lower claims, and shares that value with clients by using it to fund the incentives and rewards that drive healthier behavior.

The Vitality model has been proven to drive better health care outcomes, with highly engaged members demonstrating 10% lower hospital admissions, 10% to 30% lower hospital costs and 25% shorter hospital stays. Vitality members in South Africa live 14 years longer than the average insured population. Reinsurers have also validated the long-term mortality impact of Vitality, with members having, on average, 42% improved mortality rates, and highly engaged members showing a 76% reduction in mortality.

Similarly, in our auto insurance offering, highly engaged Vitality drivers in South Africa have 63% fewer accidents than the worst or unengaged drivers, and 77% have fewer severe accidents.

How important is it to incentivize healthy behaviors, especially during critical times like a pandemic?

Never has our shared value model been more relevant than during the current global pandemic, which has exposed the link between noncommunicable diseases and infectious diseases.

The pandemic has magnified the importance of addressing lifestyle-related risk. Global research demonstrates that more than 50% of COVID-19-related deaths are attributed to individuals with three or more comorbidities, such as diabetes or heart disease. We are now seeing that behavior can determine not only noncommunicable disease risk but communicable disease risk as well.

For example, according to our data analysis of South African cases, a 65-year-old male who does not exercise and has no other chronic conditions has a 55% higher chance of dying from a COVID infection than a 45-year-old with no chronic conditions. In contrast, a 65-year-old male with no chronic conditions and who exercises for 30 minutes four times per week has a risk 22% lower than a 45-year-old who does not exercise at all.

Business models that help make people healthier, while simultaneously lowering the price of insurance, have the potential to make a profound contribution to society by building resilience against both noncommunicable and communicable diseases and helping individuals and health care systems weather severe shocks.

What is COVID-19 revealing about today's global health systems and traditional insurance models?

The pandemic has accelerated three trends that are important for business in general and insurers in particular. The first trend is that the nature of risk is behavioral. Behavioral risk factors have replaced preexisting risk factors, with four lifestyle choices—smoking, poor nutrition, physical inactivity and alcohol consumption—leading to 60% of mortality and 80% of morbidity. The pandemic has also demonstrated the importance of behavior in determining both noncommunicable disease and communicable disease risks.

However, traditional insurance models tend to pool behavioral risk and subsidize individuals who exhibit poor health behaviors. That is not productive or sustainable, emphasizing the need for traditional models to factor in the behavioral nature of risk on an ongoing basis.

"The global pandemic has further demonstrated the important role the insurance sector can play in helping keep its customers healthy."

The pandemic has also accelerated the rush to an online world. This has seen many barriers fall away as more people seek and use digital health care. The data provided through wearables and health care apps—when used ethically and with consent—can also be powerful assets in monitoring and incentivizing health behavior. Insurers will have to adapt to these shifts rapidly and responsibly.

The pandemic has also revealed that while purpose may have once been a nice-to-have, it is now a nonnegotiable. Going forward, businesses will be expected to reconceive business models to create change at a societal level and respond to the most pressing social challenges relating to financial inclusion and resilience, access to quality health care and education, and minimizing negative impacts on the environment.

How is the pandemic spurring the need for increased innovation, healthier living, and disease response and management? Have you seen a rise in negative health behaviors during the pandemic and last year's lockdown, and what is Discovery doing to create more positive health behaviors as COVID-19 rages on?

The global pandemic has further demonstrated the important role the insurance sector can play in helping keep its customers healthy. Discovery also finds itself in a unique position to analyze a combination of insurance claims and behavioral data to understand the broader impact of the pandemic beyond morbidity and mortality.

In terms of changing behaviors, we are beginning to see differences in various lifestyle categories at different stages of the pandemic. For example, eating out decreased during initial lockdowns, and home cooking and purchasing of meal kit services increased. On the other hand, outdoor activity decreased early in the pandemic but seems to have picked up again as countries relaxed their restrictions, with subscriptions to at-home workouts decreasing.

We recently conducted an analysis of purchasing data for around 320,000 Vitality members on the Vitality HealthyFood benefit in South Africa, comparing 2019 to 2020. In the pre-lockdown period of January to March 2020, [grocery] baskets were deteriorating, with 2% less healthy foods purchased compared to 2019. However, during the lockdown period, there was an increase in the percentage of healthy foods purchased compared to the same period in 2019. Overall, members purchased, on average, 6.2% more healthy foods during the lockdown in April to June than in 2019. However, there was also an increase in the purchase of unhealthy foods during that time.

Understanding these trends and their drivers has enabled us to tailor interventions such as targeted member communications, boosted rewards, and new offerings that provide healthier alternatives and offer discounts on healthier versions of convenience meal items. We also boosted our

HealthyFood benefit to provide a 100% cashback for qualifying Discovery Bank clients, and rewarded Vitality members with Discovery Miles, or virtual currency, as they exercised.

In our motor business, we reduced clients' premiums by 25%, using our telematic insights to identify clients that had traveled low distances. And on the disease management front, we implemented real-time monitoring of every Discovery member who tests positive for COVID-19, with live analytics of the drivers, and are communicating with them to ensure they remain safe.

During the 2020 financial year, we generated 12 billion rand (US$802 million) in the form of shared value for our clients, spanning premium discounts, cashbacks, boosts and value-added benefits in managing care.

We also extended our intellectual property and assets toward supporting the national response in South Africa, such as with our partnership with local telecommunications provider Vodacom. We made our virtual health care platform available to all South Africans during the pandemic, helping to safeguard the health of citizens and providers through cofunded virtual consultations with doctors.

> "We are now seeing that behavior can determine not only noncommunicable disease risk but communicable disease risk as well."

How are you leading your company in this time of disruption, and what types of leadership skills will be needed in the post-COVID world?

The rising societal expectations for companies to act responsibly have now reached a climax. There is now a fundamental recognition that the purpose of business cannot be narrowly focused on making money without regard for how it interacts with the sustainability and well-being of the societies and environments in which it operates.

Often there is skepticism and concern that this is an impractical approach to business, and that at some level there will be trade-offs or conflicts between a company's ability to make a profit and the interests of its stakeholders. But what we've seen at Discovery is the opposite … that through the shared-value insurance model, the company's, client's and society's interests are completely aligned.

The way employees think about their employers will be shaped for a long time by the way they were treated during such a testing time, with resulting differentials in loyalty, commitment and energy. Qualities of trust, empathy and purpose will be critical to leadership going forward.

What are Discovery's future plans, and do you see individuals' approach to health and the ways they strive to enhance their lives changing?

Our overarching goal is to reach 100 million people by 2023. Not only do we want to continue to provide incentives that promote healthy behaviors, but we are expanding our offering to help people better manage their finances, using the same model and powerful tools like mobile banking. Ultimately, the goal is to apply the Vitality model to a range of financial services adjacencies and markets, with technology at the core.

Discovery can continuously evolve its business model by using its massive data asset—over 50 million life years of behavioral-linked insurance data.

An example of this asset at work is Discovery's COVID-19 Resilience Index, which is a generic assessment to help individuals determine whether they have heightened risk factors if they contract COVID-19, based on their existing health conditions, biometrics and lifestyle choices. The intention of this living tool, which is now under academic review, is to help shape the response strategy of companies and governments as the disease develops.

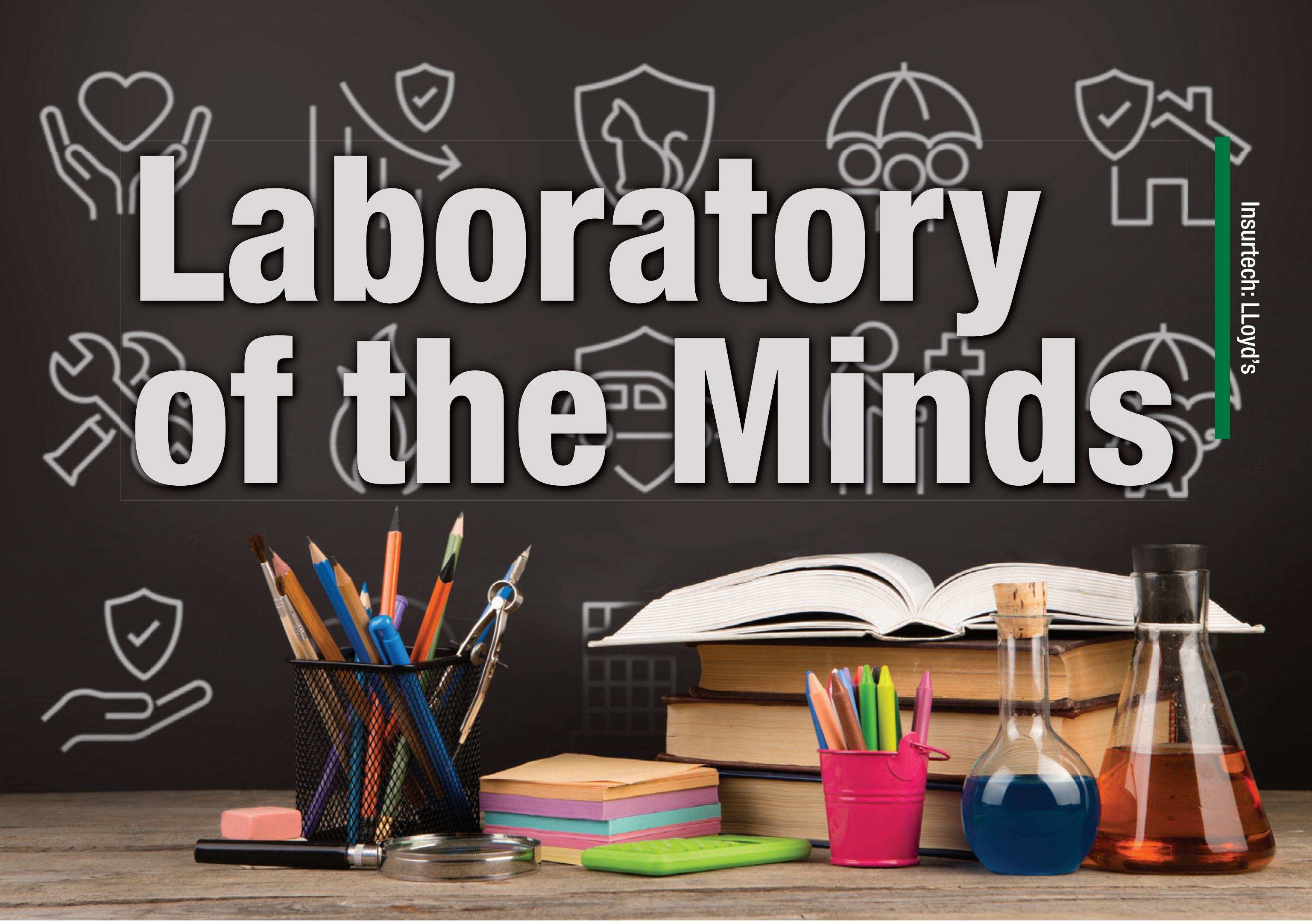
Going forward, we see a continued emphasis on health, technology and purpose, and I believe our organization is well placed to lead in this space. Key to that is the fact that we have been obsessive about the culture, purpose and values of our organization. Our leaders are passionate about prioritizing and driving our culture and making it part of their agendas. BR

Learn More

Discovery Limited (AM Best #058603)

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

Laboratory of the Minds



How the Lloyd's Lab, an insurtech accelerator, is building a bridge between the newest technology and the oldest insurance market.

by Meg Green

Lloyd's roots date to 1688, when ship merchants met in Edward Lloyd's London coffee shop to share a beverage and the risk of doing business. The market evolved over the next three centuries, birthing the term "underwriters"—as risk bearers signed a slip of paper under the description of risk to indicate how much coverage they were willing to offer.

Fast forward to today, when tech companies are working with Lloyd's Lab—an insurtech accelerator—to facilitate partnerships between cutting-edge technology and the traditional world of insurance.

The program brings together 10 or so hand-picked tech companies to collaborate with Lloyd's, where they are partnered with volunteer mentors.

The Lloyd's Lab taps volunteer insurance experts from Lloyd's syndicates to offer insights, help unlock data and make introductions, and help the insurtechs tailor their solutions so they are in line with the Lloyd's market's objectives and values.

Lloyd's has been hosting two cohorts a year, and at the end of November wrapped up Cohort 5, which matched 13 insurtechs with 60 mentors. This cohort included companies based in the U.K., U.S., Ireland, Germany and South Africa.

With both sides signing nondisclosure statements, Lloyd's syndicates can provide data points for the tech companies to use. They also help educate the startups on the ins and outs of the insurance business, and share what kind of products they'd like to see developed. The insurtechs give the insurers a different perspective and a new way of thinking about managing risks and using data.

Competition to enter the program is fierce.

Ed Gaze, senior manager, Lloyd's Lab, said Lloyd's scouts for insurtechs around the world

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New relationships, transactions, programs and products that are launched after the Lloyd's Lab are proof of the program's success.

Ed Gaze
Lloyd's Lab

and encourages them to apply for the program. Typically, 150 to 250 hopefuls apply.

"It's really tough to pick the teams," Gaze said.

A core group from Lloyd's whittles the pack to 40 to 60, then hosts a workshop with 15 or 20 insurance market representatives who vote, reducing the pool to 24. That group is invited to "pitch day," where they give a five-minute presentation on what they do, then field questions for another five minutes.

An audience from the insurance market then votes. Winners are invited to the 10-week program. Once in the lab—and unlike the "Great British Bake-Off" TV show—no one is booted from the group. At the end, participants present their work during "Demo Day," a chance to show off what was accomplished during the program.

Normally, the Lloyd's Lab takes place in Lloyd's Lime Street building in London, but the last cohort was fully virtual due to the COVID-19 pandemic and quarantine, Gaze said. "I'm hoping sometime [in 2021] we'll be able to get back to some face-to-face," Gaze said. "We've really missed building the ecosystem that we had in 2019."

Working remotely via video chat has been successful, he said, and several of the tech companies were focused on COVID-related solutions.

Divided by a Common Language

Insurtechs and insurers can face challenges communicating, even if everyone is speaking English. "Sometimes it's just different language and different culture," said Paul Prendergast, chief executive officer of Blink, a parametric technology company and Lloyd's Lab participant.

Insurtechs often have insurance questions that can be quickly answered by the right people, Gaze said. "They come to insurers to both sell themselves but also to get some information back and help improve their products," he said.

The program "really opened up this conversation and closed the gap between insurtech and traditional carriers," said Cathine Lam, another participant and also the lead data scientist/actuary for Metabiota, an insurtech that tracks epidemics and their economic impact.

"It brings people together—carriers who are seeing new, innovative solutions, and also insurtechs with the right subject matter experts in this think tank—to generate unconventional solutions," Lam said. "Before Lloyd's Lab, we had lots of ideas, but it's talking with the carriers that's really helped us home in and focus on what matters."

Praedicat, a liability risk modeling company, has participated in two different Lloyd's Lab cohorts. During the first, the company described its work as casualty catastrophe modeling, which didn't resonate with insurers, said Bob Reville, co-founder, president and CEO, Praedicat.

"There are no casualty catastrophe models today. [Insurers] are not sure that they know what that is or that they want it," Reville said. However, he said, casualty insurers all have emerging risk functions.

"For us to come in and say we're going to deliver technology-assisted emerging risk information, they know they want that. They like it. It's immediately accepted. Another one is if we say we're delivering technology-assisted underwriting information. They like that, too," Reville said.

Casualty catastrophe modeling, emerging risk modeling, and underwriting analysis are "just three ways to describe the same thing. The acceptance is different depending on what we call it. ... It's essentially the same activity," he said.

Insurtechs "quite often go to insurance companies with a bit of the puzzle missing in terms of the knowledge that they have," Gaze said.

Bob Frady, chief executive officer of HazardHub, an insurtech that maintains an extensive database on what risks individual properties face, said the company had several Lloyd's managing agents as clients when it joined a recent Lloyd's Lab cohort. "We weren't exactly sure how the [managing agents] were using the data," Frady said. "We thought we needed to learn more about what they do. For example, we thought Lloyd's was an insurance company."

With its 90 syndicates, Lloyd's can be difficult to approach, said Jay Bregman, CEO of Thimble, also a recent Lloyd's Lab participant. "It's very difficult for smaller companies in particular to get attention from syndicates without someone from HQ to make the introduction," he said.

Insurers learn from the program, too.

HazardHub knows the perils a property faces—floods, wildfires, wind, hail, tornadoes, underground storage tanks, sinkholes, "all the bad stuff that can happen, as well as some other things like where's the fire station, where's the fire hydrant, how many bedrooms and bathrooms are on the property, how many square feet, etc. … which basically means we're no fun at parties," Frady said.

"A lot of times people build expensive homes in areas that are tough to insure. They build them in the middle of woods, they build them near rivers. They build them near the ocean. All of which are rife with danger. You don't necessarily want to be the one who tells them that," Frady said.

Isn't this the exact kind of information that insurers should already have?

"It depends," Frady said. "It's like saying you have a car. Everybody has a car, but is it the right car? That's what we bring to the table. We have advanced geospatial models for a variety of risks, but we also bring a comprehensiveness to the table that other folks don't have. Some people do have some forms of this data, like some people have a 1959 F-150. We're the modern day version of a lot of that existing type of data."

Measuring Success

New relationships, transactions, programs and products that are launched after the Lloyd's Lab are proof of the program's success, Gaze said.

"Catastrophes bring out the best in the insurance industry."

Jay Bregman
Thimble

The Lloyd's Lab "was enormously valuable," Frady of HazardHub said. "First of all, not only to understand the structure of Lloyd's and how it works, but also to understand how our data helps them avoid risks or understand what the potential risks are of a property far, far earlier in the process than they do right now. From our standpoint, it was a home run."

A number of companies in Cohort 5 focused on COVID-related risks. Praedicat, for example, emerged from the lab with a new product that helps insurers discern clash risk—the risk that a single event, like COVID-19, could significantly impact multiple lines, in this case general liability and director and officers lines.

"It's not every day in a three-month period that you can produce a brand new application from scratch," said David Loughran, senior vice president, Praedicat.

Working with insurance mentors was key to bringing that product forward, he said.

"The collaborative spirit in the lab is perfect for idea generation," Adam Mitchell, head of group exposure management for Argo, who served as one of Praedicat's mentors, said in a statement.

Through its work with Lloyd's mentors, Metabiota identified three solutions related to epidemics: adapting its existing outbreak surveillance system to send early warning alerts; creating a new COVID-19 risk index that measures the severity for any given location in the world; and creating a tool to estimate related economic losses, Lam said.

"Before Lloyd's Lab, we had lots of ideas, but it's talking with the carriers that really helped us home in and focus on what matters."

Cathine Lam
Metabiota

"We believe it is critical to quantify, mitigate and manage epidemic risk," said Jaclyn Guerrero, associate director, product, policy, and partnerships, Metabiota. "We believe epidemic risk is insurable, and insurance should be an important part of a company's pandemic mitigation and resilience plan. Lloyd's will play a key role in setting market standards and developing solutions for the post-COVID landscape."

Bregman of Thimble, who "wants to bring the Netflix experience to insurance," said catastrophes "bring out the best in the insurance industry."

"It's not a coincidence that these real calamitous events have produced … major insurance companies," Bregman said. "The barometer of risk of every business in America has shifted now."

Thimble used its time at the Lloyd's Lab to develop a small-face-value business interruption policy that would be triggered by COVID-19 shutdowns.

The company is considering becoming a risk bearer and is looking at forming a captive, Bregman said. "We hope to have that up and running next year. After that, we may decide to become an insurance company in certain states, but basically, we're on a journey to become a full-stack insurer that is able to share risks with our partners."

Blink, which had been offering a parametric tool for insurers to offer flight cancellation and rebooking, expanded into commercial lines by offering a hurricane-triggered small-face-value business interruption cover.

"Lloyd's Lab has been incredible. Ten weeks ago, we didn't know we were going to do business interruption or hurricane. … It's probably saved us about a year in terms of insight from the mentors," Prendergast said.

Perhaps the biggest success story is Parsyl, a tech company that has grown into a Lloyd's syndicate. Parsyl designed a key-fob-sized device to ride with cargo to track conditions, including temperature and humidity, which could be key to protecting the integrity of vaccines.

Together with Ascot as managing agent, and in cooperation with AXA XL, McGill and Partners and Gavi, the Vaccine Alliance, Parsyl launched a "syndicate in a box." Syndicate 1796 forms the foundation of the new Global Health Risk Facility at Lloyd's, the first public-private syndicate to address a global health emergency in Lloyd's history, the companies said in a statement.

The syndicate will insure the storage and transportation of a COVID-19 vaccine, when ready, to emerging economies. Syndicate 1796 will be backed by development finance capital, allowing it to share risks with leading cargo syndicates, making better, fairly priced cargo coverage available, Lloyd's said.

"It is incredibly rewarding to work with creative talent and the intellectual diversity the Lloyd's Lab environment promotes," said Tom Hoad, head of innovation for Tokio Marine Kiln and a Lloyd's Lab mentor. "TMK is very active in this space so there are commercial outcomes beyond the mentoring that we expect to pay off over the next few years." BR

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A Simpler Solution

India's insurance regulator mandates that life insurers offer a basic policy to individuals between 18 and 65 without restrictions on gender, place of residence, travel, occupation or educational qualifications.

by David Pilla

India life insurers must introduce a standard individual term life insurance product into the market by Jan. 1, according to a new mandate by the country's insurance regulator.

The product—called Saral Jeevan Bima—was to have been filed by insurers by Dec. 1, 2020, at the latest, said the Insurance Regulatory and Development Authority of India in a statement.

Saral Jeevan Bima is a non-linked, non-participating individual pure risk premium life insurance plan that provides for a lump sum payment if the insured dies during the policy term. The insurer's name will be prefixed to the product name, Saral Jeevan Bima.

Apart from stated benefits and riders, no other riders, benefits, options or variants will be offered, the IRDAI said. The only exclusion will be for suicide.

The product will be offered to individuals between 18 and 65 without restrictions on gender, place of residence, travel, occupation or educational qualifications; the policy term would be five to 40 years, the regulator said.

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

"The insurer may suitably modify the definitions and other clauses of the policy contract prospectively based on the regulations or guidelines that may be issued by the authority from time to time," the IRDAI said.

Over the past few years, there has been an increased customer preference toward pure term life insurance products, the IRDAI said. With the growing demand, life insurers have been introducing "innovative protection products" with a number of features, the regulator said.

"There are many term products in the market with varying terms and conditions," the IRDAI said. "Customers who cannot devote adequate time and energy to make informed choices find it difficult to select the right product. Also, products may not be available for the intended sum assured.

"To make available a product by all life insurers that will broadly meet the needs of an average customer, it is felt necessary to introduce a standard, individual term life insurance product, with simple features and standard terms and conditions."

The IRDAI said the standard product "will make it easier for the customers to make an informed choice, enhance the trust between the insurers and the insured, and reduce mis-selling as well as potential disputes at the time of claim settlement."

In September, the IRDAI proposed a pandemic risk pool to provide business interruption coverage for future diseases in the wake of COVID-19.

An IRDAI working group is proposing the pool—to which insurers and reinsurers would contribute—that would start with total coverage of about $680 million and eventually reach about $10.19 billion.

The pool, which would include a government backstop, would be set up as a public-private partnership with GIC Re recommended as the administrator due to its experience with similar pools in the past, an IRDAI report said. BR

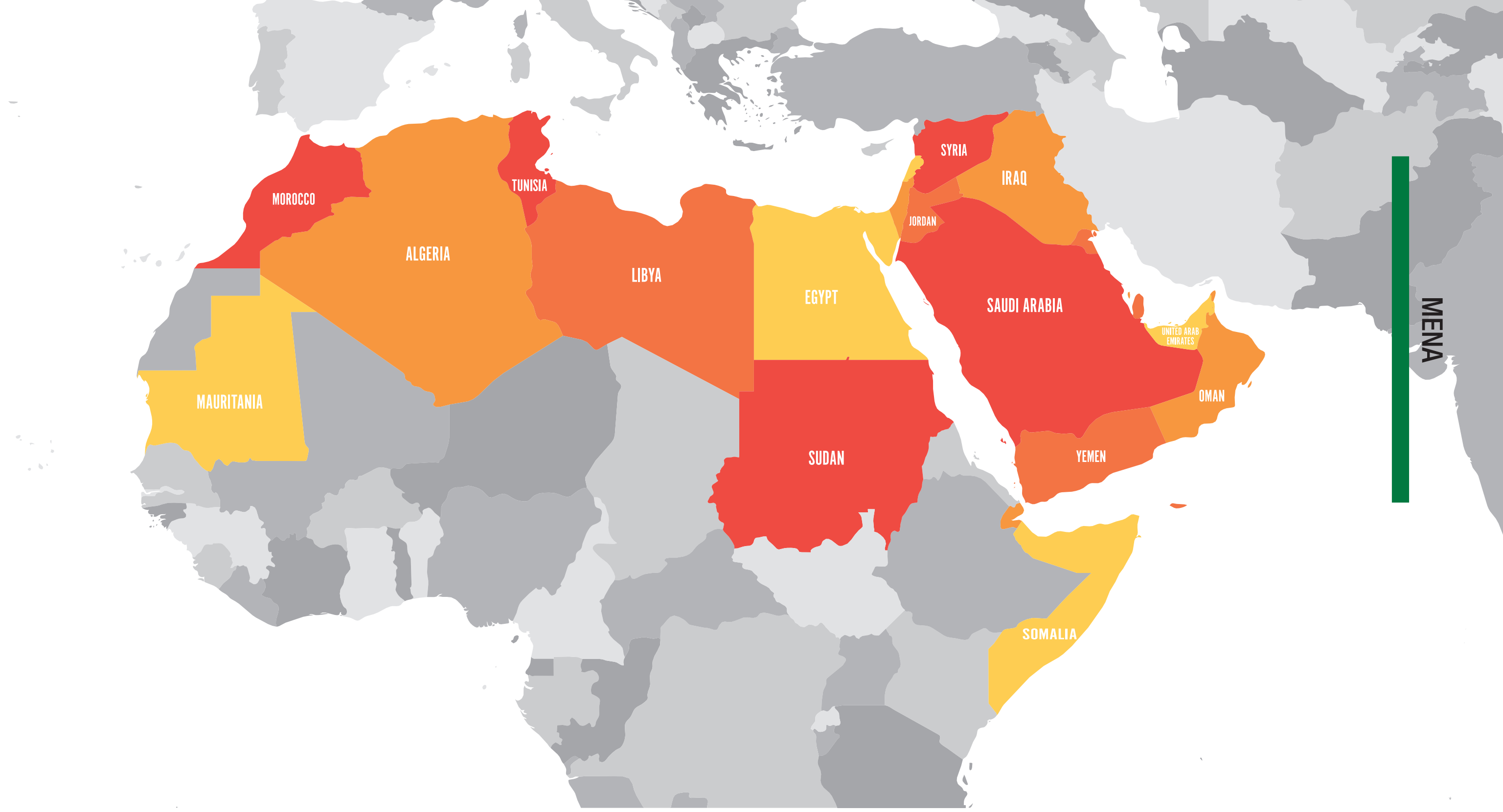
Best's Rankings

Top 20 India Insurers

Currency: Indian Rupee. (Only applies to data from Best's Statement File–Global database.) Ranked by 2019 GPW.

	AMB #	Company	2019 Gross premiums written (c)	2019 Gross premiums written (nl)	2019 Gross premiums written (l)	2019 Capital & surplus
1	085485	Life Insurance Corporation of India	3,793,895,990	0	3,793,895,990	7,395,269
2	086041	General Insurance Corporation of India	510,301,292	500,745,634	9,555,658	368,193,787
3	090253	SBI Life Insurance Company Ltd.	406,347,288	0	406,347,288	87,430,838
4	089580	ICICI Prudential Life Insurance Co. Ltd.	334,307,038	0	334,307,038	72,186,233
5	077629	HDFC Life Insurance Co. Ltd.	327,068,938	0	327,068,938	67,999,238
6	086043	New India Assurance Company Ltd.	312,438,584	312,438,584	0	277,021,380
7	085412	United India Insurance Company Ltd.	177,667,401	177,667,401	0	8,928,695
8	078465	Max Life Insurance Company Ltd.	161,836,470	0	161,836,470	25,738,895
9	086042	National Insurance Company Ltd.	155,728,266	155,728,266	0	-32,016,448
10	086044	Oriental Insurance Company Ltd.	143,173,400	143,173,400	0	36,499,213
11	078522	ICICI Lombard General Insurance Co. Ltd.	135,923,749	135,923,749	0	57,056,189
12	078529	Bajaj Allianz General Insurance Company	128,330,656	128,330,656	0	56,421,066
13	090261	Kotak Mahindra Life Insurance Co. Ltd.	103,400,786	0	103,400,786	33,532,775
14	090263	Bajaj Allianz Life Insurance Company Ltd.	97,525,277	0	97,525,277	97,307,112
15	091786	HDFC ERGO General Insurance Co. Ltd.	94,389,064	94,389,064	0	23,586,365
16	090297	Agriculture Insurance Co. of India Ltd.	93,612,099	93,612,099	0	40,850,574
17	090169	Tata AIA Life Insurance Company Ltd.	83,085,079	0	83,085,079	21,136,322
18	088747	IFFCO TOKIO General Insurance Co. Ltd.	80,704,702	80,704,702	0	24,556,501
19	090264	Aditya Birla Sun Life Insurance Co. Ltd.	80,099,740	0	80,099,740	22,318,597
20	090168	Tata AIG General Insurance Company Ltd.	75,477,551	75,477,551	0	22,098,050

Source: AM Best's Global Insurance Database
Created as of: December 1, 2020 - (c) composite, (nl) non-life, (l) life



A Disciplined Response

Middle East and North Africa insurers change underwriting approach in response to quarantines, low oil prices.

by Meg Green

COVID-19 quarantines and the resulting drop in oil prices are likely to impact insurers and reinsurers in the Middle East and North Africa, according to panelists at AM Best's Insurance Market Briefing–MENA.

COVID-19 is less likely to affect direct underwriting losses, said Alex Rafferty, associate director, analytics, AM Best.

"Looking forward at COVID-19 and the oil-price-environment-driven investment volatility, economic challenges and lower-for-longer interest rate conditions are likely to play into regional reinsurers' overall returns and return on equity over the coming years," Rafferty said.

These conditions are fostering an increased focus on underwriting, he said, adding that the improving market conditions should contribute to stronger underwriting discipline so insurers and reinsurers operating across the MENA region generate sufficient returns to meet their cost of capital.

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

MENA insurers are being impacted by the higher rates in the global reinsurance market, said George Kabban, chief executive officer, United Insurance Brokers (DIFC) Ltd.

He noted hefty event cancellation claims, such as $141 million for Wimbledon and $650 million for the Japanese Olympics.

"About $80 billion is the upper range that I've heard being losses attributable directly or indirectly to COVID," Kabban said. The reinsurance market began hardening in 2018, but these losses, and low interest rates, have added pressure.

"There's no alternative but for reinsurers to turn to a more disciplined technical underwriting and [charge] adequate rates to reflect the risks they are taking on," Kabban said. "Unfortunately, it comes at a time when many clients can least afford those increases."

He said airlines are going out of business because of the reduction in travel while aviation insurance rates "are experiencing eye-wateringly high rate increases."

Travel data company Cirium found 43 commercial airlines had failed in 2020 by the third quarter.

The rising rates are putting pressure on all insurance buyers to look at alternatives, including captives, Kabban said.

The pandemic and subsequent quarantines led to a disruption in supply chains, travel restrictions, and a general reduction in consumer spending, which resulted in a global recession, said Jessica Botelho-Young, associate director, analytics, AM Best.

Oil-exporting countries in the MENA region have had the additional challenge of low oil prices—which dropped in March due to decreased demand and increased supply at that time, Botelho-Young said.

AM Best believes the insurance markets in oil-producing countries will feel the effect of the lower oil prices on both their underwriting activities and asset valuations, given how heavily reliant these countries are on oil revenue. "Any fluctuations in the price of oil will, in our view, have a direct impact on national GDP growth," Botelho-Young said.

"There's no alternative but for reinsurers to turn to a more disciplined technical underwriting and [charge] adequate rates to reflect the risks they are taking on."

George Kabban
United Insurance Brokers (DIFC) Ltd.

The importance of oil prices and the relationship to public spending is significant, as regional insurers have historically relied on government spending, particularly on infrastructure projects, for premium growth, she said. "In general, government-related engineering and property policies are highly profitable for local insurers who benefit from those strong levels of inward reinsurance commission," Botelho-Young said.

However, if the projects are just delayed, it may not have a material impact on insurers, she said.

Asset volatility is a concern, because Middle East insurers tend to take on more asset risk than insurance risk, which tends to be the opposite in mature markets, Botelho-Young said.

"The prospects of a resurgence of COVID-19 and a new national lockdown … have introduced renewed volatility in the stock market," she said, noting oil prices recently fell to as low as $39 a barrel.

Volatile investment results could erode the technical profitability of insurers in the region. She also pointed toward the difficulty in collections due to the challenging economic conditions.

The main challenge is likely to be in 2021, when companies will have to face the impact of reduced rates—especially in medical and motor—combined with increased claims, Botelho-Young said.

Insurers also are still analyzing insured losses from the Aug. 4, 2020, port explosion in Lebanon, which is estimated to be the third- or fourth-largest nonnuclear explosion in the world. Estimated insurance claims were at $400 million by mid-August and expected to rise, AM Best said.

Samer Abou Jaoude, general manager of Arabia Insurance Co., based in Lebanon, said all insurers in Lebanon have been hit by this catastrophe.

While 90% to 95% of the estimated losses would be reinsured, the remaining 5% to 10% are considered to be quite heavy for the local insurance community and industry, he said.

One interesting effect of the pandemic is that it's highlighted the importance of innovation and technology to ensure operational resilience during these uncertain times, Botelho-Young said.

Those that had already invested in digitalization and technology before the pandemic were in a better place to navigate the new or challenging market conditions than the others who are effectively playing catch up, she said.

Selling and managing policies online will be the key to profitability, Jaoude said.

"I expect for those players who were able to digitalize and who became one step ahead of the others to be able to finish the year with a fair amount of growth, both in their top and bottom line," Jaoude said.

Vasilis Katsipis, general manager–market development, AM Best, asked how challenging it is for reinsurers used to doing business face-to-face to switch to digital. "I don't think it's going to last forever," said Adham El-Muezzin, managing director, Hannover Re Takaful and Hannover Re Bahrain Branch. "Once this situation returns to 2019 levels, we'll all be crowding planes and running into each other at airports."

But for now, the technology is working to keep communication open.

"We've all been doing it, and we continue doing so. ... We'll get closer in relationships rather than farther away, because we can do it as frequently as possible. Booking a flight and traveling ... needs a bit more effort," El-Muezzin said.

When the pandemic is over, the improvements to technology will remain, Kabban said.

El-Muezzin added that public-private partnerships are likely to grow in importance.

"This situation has shown us that there are things that are too big for insurers to carry, and also too big for governments to carry," he said. BR

AM BestTV

Go to *bestreview.com* to watch the market briefing.

Best's Rankings

Top 20 MENA Insurers

Currency: $US. (Only applies to data from Best's Statement File–Global database.) Ranked by 2019 GPW.

	AMB #	Company	Country of Domicile	2019 Gross premiums written (c)	2019 Gross premiums written (nl)	2019 Gross premiums written (l)	2019 Capital & surplus
1	088583	Harel Insurance Company Ltd.	Israel	4,235,080	997,851	3,237,228	1,454,235
2	086742	Migdal Insurance Company Ltd.	Israel	3,966,736	1,140,774	2,825,961	1,548,972
3	078335	Qatar Insurance Company Q.S.P.C.	Qatar	3,534,182	3,534,182	0	2,326,168
4	071355	Phoenix Insurance Company Ltd.	Israel	3,266,367	814,663	2,451,704	1,411,406
5	086738	Clal Insurance Company Ltd.	Israel	2,801,522	1,069,176	1,732,346	1,265,630
6	090701	BUPA Arabia for Cooperative Insurance Co.	Saudi Arabia	2,776,891	2,776,891	0	812,165
7	085885	Company for Cooperative Insurance	Saudi Arabia	2,234,093	2,234,093	0	666,742
8	088582	Menorah Mivtachim Insurance Company Ltd.	Israel	1,967,366	990,565	976,801	501,371
9	090842	Gulf Insurance Group K.S.C.P.	Kuwait	1,312,874	1,249,417	63,457	363,862
10	078593	Orient Insurance P.J.S.C.	United Arab Emirates	1,056,818	950,747	106,070	837,158
11	085825	Abu Dhabi National Insurance Co. P.S.C.	United Arab Emirates	1,022,672	0	0	625,293
12	078177	Oman Insurance Company P.S.C.	United Arab Emirates	965,320	928,399	36,921	515,510
13	086737	Ayalon Insurance Company Ltd.	Israel	938,571	729,924	208,647	196,278
14	090950	Gulf Insurance and Reins Co. K.S.C. (Closed)	Kuwait	717,270	0	0	137,166
15	091869	Al Rajhi Company for Cooperative Ins.	Saudi Arabia	685,444	657,739	27,705	233,447
16	088904	Medgulf K.S.A.	Saudi Arabia	645,827	645,827	0	188,353
17	090814	AXA Insurance (Gulf) B.S.C.(c)	Bahrain	580,656	528,768	51,887	311,185
18	085257	Misr Insurance Company	Egypt	579,271	579,271	0	1,114,215
19	078961	SAHAM Assurance Maroc	Morocco	572,116	456,242	115,874	464,384
20	078564	AXA Assurance Maroc	Morocco	490,117	320,156	169,961	443,630

Source: AM Best's Global Insurance Database
Created as of: December 1, 2020 - (c) combined, (l) life, (nl) non-life

Meeting the COVID Challenge

Insurance industry event organizers keep options open, but many move to hybrid conferences amid 2021 pandemic uncertainty.

by Renée Kiriluk-Hill

Virtual or hybrid events will continue through the first half of 2021, with insurance industry conferences and meetings that combine in-person and virtual elements likely remaining the norm in a post-COVID-19 world, organizers said.

"I think we're going to see larger audiences," said Stuart Ruff-Lyon, Professional Convention Management Association board chairman and RIMS vice president of events and education. Hybrid events break down attendance barriers raised by fiscal, time, distance or physical constraints.

While the pandemic retains its grip, event planners daily are monitoring COVID-19-related local health regulations, city curfews, ordinances capping the size of events, and travel restrictions while keeping abreast of federal Centers for Disease Control and Prevention and World Health Organization guidelines and best practices, Ruff-Lyon said.

Some event organizers who hoped for in-person conferences are rearranging calendars to mid-2021, when potential vaccines could be more readily available. InsureTech Connect Asia was billed as a Feb. 2-4 convention that would bring together more than 1,500 insurance industry executives, investors and entrepreneurs in Singapore. It is now being recast as a hybrid June event, pending government approval for the in-person component, according to Director Rocio Sarriegui. "We also understand some borders will still be closed, or company travel restrictions will

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still be in place, so we'll be replicating the exhibition hall online, and all the content will be available on demand."

InsureTech Asia thinks it could reach its pre-COVID target of 1,000 attendees, Sarriegui said. Singapore's borders are currently closed, although the country has a Reciprocal Green Lane travel agreement with Asia-Pacific countries. "We hope things will relax by June, but we need to be realistic and plan with what we know. At the moment, we're expecting 80% local attendees and 20% international. Before COVID, we'd have expected 30% local and 70% international," she said.

In the United States, InsureTech Connect's ITC Las Vegas is scheduled for Oct. 4-6. Last year's event was virtual. "While being together again in person is our goal, being together safely is paramount," organizers Jay Weintraub and Mee-Jung Jang said in a statement. "In the near future, we will share specific details of our 'Together Again Safely' plan."

Registration opens in January. "We understand that not everyone is ready or able to make decisions today about [later in the] year," they said.

The National Association of Mutual Insurance Companies also is pushing early 2021 conferences out by four months, said convention and association services Assistant Vice President Larry Baile. The February Claims Conference is now set for June 6-10 and the March Commercial Lines Seminar is moving to July 21-23. Both will be hybrid conferences with selected educational sessions and general sessions available to virtual attendees. Baile called the setup "the best of both worlds."

The American Property Casualty Insurance Association will hold all 2021 events, but the format—virtual or in-person—will be decided by current COVID-19 circumstances and safety-driven, it said on its website. Several virtual conferences are set from February through April.

Rendez-Vous de Septembre 2021 is scheduled to take place Sept. 11-16 in Monte Carlo, but the organization hasn't posted details. Organizers canceled the 2020 event, organization president Claude Tendil said at the time.

The events industry is an economic force. Planning for large events starts years in advance, but today the virus has shifted the landscape, and the hospitality industry has adjusted to the situation with more flexible contracts, said Ruff-Lyon.

RIMS holds multiple events annually and this year shifted to maintain momentum online or in a hybrid form. Its annual conference and exhibition has drawn more than 10,000. In 2021 that event is set for April 18-21 in Chicago, the format is subject to change.

"If feasible, we will hold some on-the-ground, face-to-distanced-face activities. ... However, if external factors persist, all educational, networking and solution-sharing components will be virtual for the

2021 Schedule Update for Select Insurance Events

Event	Platform Type	Date	Location
Artemis ILS Conference	Virtual	Feb. 5	New York
RAA Cat Risk Management Conference	Virtual	March 22	Orlando, Fla.
Philly I-Day	Virtual	April 13	Philadelphia
Risk and Insurance Management Society (RIMS)	Hybrid	April 18	Chicago
PLUS D&O Symposium	TBD	April 29	New York
InsureTech Connect Asia	Hybrid	Rescheduled for June	Singapore
NAMIC - Claims Conference	Hybrid	Rescheduled for June 6	Orlando, Fla.
Bermuda Captive Conference	Virtual	June 13	Bermuda
NAMIC - Commercial Lines	Hybrid	Rescheduled for July 21	Chicago
Rendez-Vous de Septembre	TBD	Sept. 11	Monte Carlo
NAMIC Annual Conference	In-Person	Sept. 19	Nashville
WSIA Annual Marketplace	In-Person	Sept. 19	San Diego
InsureTech Connect	Hybrid	Oct. 4	Las Vegas
St. John's Insurance Leader of the Year Award Dinner	Canceled	Postponed until January 2022	New York

Dates or format subject to change.
Source: Event hosts

extended period of April 19-29," RIMS 2020 President Laura Langone and Chief Executive Officer Mary Roth said in a recent letter to participants.

They plan to open registration and housing reservations in January, but also hired a "leading digital-event producer" to ensure universal access to its "learning and networking experience."

Once it's safe to travel and gather again, Ruff-Lyon and others said, most attendees will return to in-person events to reconnect and build new business relationships, augmented by others joining in virtual pods or hubs. "It will be exciting to see how this merges," said Ruff-Lyon.

With COVID-19 cases in a rise-and-fall cycle, Lance Ewing, executive vice president of global risk management for Cotton Holdings Inc., said event organizers continually weigh risk and disruption to their organization, members, vendors and more.

In certain states, there could be an opportunity for small in-person events, Ewing said, and only if COVID-19 protocols are in place. Otherwise, organizations could face general liability claims from third parties as well as workers' compensation claims. "Companies and associations working on 2021 and 2022 planning need to be sensitive," Ewing said.

Smaller events are more nimble, Ewing pointed out. "They have the ability to lift and shift a bit quicker" as state virus-containment measures and virus hot spots ebb and flow.

"If they're taking up three hotels in Topeka, Kansas, and want to move to Tulsa, Oklahoma," they can, he said. On the other hand, planning for large events starts four to five years out and in coordination with chambers of commerce, large hotels, transportation companies and more.

"It's like invading a city—you need long-range planning," said Ewing. The people who stage those gatherings need to be "much more creative than in the past" while COVID-19 is in the picture.

They can be more judicious with their time, said Ewing, instead of rushing between convention floors, lunch meetings and cocktail receptions. "At every conference you're overbooked and have to prioritize who you're going to meet with," Ewing said. "There's some upside to this. We can learn how to make it better going forward."

Ewing envisions a lasting hybrid approach, because fully virtual events can't satisfy the need to "look someone in the eye, break bread with them. We will get back to some of that," Ewing said.

The Medical Professional Liability Association has additional pandemic advisers close at hand, as half of its board members are physicians or dentists, and the other half are insurance executives. "Every one has a very, very acute sense of the seriousness of this pandemic" and brings that gravitas to deciding how the association connects constituents during the pandemic, President and Chief Executive Officer Brian Atchinson said.

Event hosts had a steep learning curve. "It's one thing to host or produce a webinar. It's another thing to host a typical event in a meaningful way online, with high production quality, that spans a three-day time frame and is available to hundreds or thousands of people," Atchinson said.

In the fall, the MPLA transitioned to a hybrid event for its three-part, annual series on underwriting, claims and risk management, and operational functions.

Held at three locations over two-and-a-half days, it commonly draws about 140 attendees to each part of the series. The MPLA may draw as much as 25% of conference attendees from countries outside of the United States. Last year the MPLA choreographed a hybrid fall session, allocating three to four hours of prep time for each hour of the event, Atchinson said.

"We had multiple rehearsals for each of 28 sessions—86 speakers over three days," he said. "They were all skilled speakers, but some were not comfortable with the tech platforms for doing this remotely."

The association rehearsed to identify and solve technical issues and worked with presenters on engaging a distant audience. "This was not just, 'Show up for a webcast at 2 p.m. on a Thursday,' " Atchinson said. The association flew speakers in for what became an interactive online event. Virtual attendees could ask speakers or each other questions in real time, verbally or in a chat room.

The MPLA paid similar attention to sponsors and affiliate members and engaging them during the event. All of the advance work paid off, he said.

"It felt like they had the same opportunities than if they were standing in the hallway sipping a coffee during a break." BR

View AM Best's searchable calendar of insurance events at: *http://www.bestreview.com/calendar*.

In Wholesale Distribution, Growth Is Propelled by Specialization, Talent and Tech

An expert panel distills the lessons of the *Best Review*–AM BestTV series on entrepreneurial agents and brokers.

by *Best's Review* Staff

"Technology indeed is a great blessing but can sometimes be a curse on the agent or broker's perspective. It's the thing that keeps them up at night. The reason why is cyberrisk."
David Stegall
Risk Consulting and Expert Services

For many agents and brokers, creating more valuable businesses often means moving to the ranks of wholesalers—brokers who act as intermediaries between insurance carriers and retail brokers. But the age of the generalist is fading, according to panelists in the closing presentation of a joint *Best's Review*–AM BestTV presentation, "The Entrepreneurial Agent/Broker."

"The M&A market for insurance distribution has been very robust over many years. The industry is still quite fragmented, which is good from an M&A perspective, and buyer demand is exceptionally high," said Skip Hagerty, managing director and partner, Philo Smith & Co. "From a buyer's perspective there's a strong demand for talent and scale coupled with specialization."

Panelists agreed with Pat Ryan, founder of Ryan Specialty Group and founder and former

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PANELISTS

David Stegall, Risk Consulting and Expert Services (pictured)

Skip Hagerty, Philo Smith & Co.

Ben Johnson, Liberty Mutual Insurance

"The customer, the ultimate insured policyholder, … expects an extremely high level of competency and focus from their wholesale brokers. That's exactly where success has been driven."

Ben Johnson
Liberty Mutual Insurance

head of Aon, who said in the initial broadcast of the series: "It's about specialization. Our approach to it, as I'm sure is quite common in the industry, is that we look for the top intellectual capital in specialty lines. It's all about getting that talent, attracting them, retaining them, helping them develop, empowering them, supporting them, and then we split it into verticals, practice groups."

David Stegall, principal consultant and founder, Risk Consulting and Expert Services, said the push toward specialization runs across all levels of distribution.

"The market is now moving to specialization, particularly with the marketing distribution system of MGAs, which I consider part of the wholesale industry," Stegall said. "People are doing what they're best at. The risk-takers are not necessarily the underwriters. The underwriters are not necessarily the claims handlers, etc."

"We see the era of specialization in the wholesale market driving more activity toward the wholesale broker," Ben Johnson, senior vice president, wholesale executive, Liberty Mutual Insurance, said. "We also see the market conditions driving more activity toward the wholesale broker. We see the impact of private equity acquiring retail agents, frankly, driving more business into the wholesale brokerage market. As a result, we are extremely excited about our wholesale partnerships, surplus lines business, and where things are headed."

"It's hard to be an expert in everything—as agents are sometimes thought of by their clients, which Mr. Ryan and others have made apparent and dealt with through specialization in practice groups," Stegall said. "Agents need to know where the expertise lies and develop relationships with those people, be they wholesale brokers with particular expertise in a line of business, or MGAs that specialize in those risk spaces. I believe most successful agents and brokers are doing this now."

"All the firms are looking to grow, and that's across the board," Hagerty said. "A lot of these firms now are backed by private equity, and you can bet that they certainly want growth. Retailers are cognizant of how much business that they send into the wholesale channel. So it's understandable why they might want to delve into that segment. We've already seen more recent examples like SPG and One80 Intermediaries. Their parent ownership is historically retail, but they're expanding in the wholesale channel. I would expect that trend to continue."

Strategic use of data is the lifeblood of wholesale success, AmWINS Group Executive Chairman Steve DeCarlo said in the series' initial episode. "When we see opportunities that can be improved through data analytics or just process, those are opportunities we want to invest in."

"This industry is much more data-driven than it used to be," Johnson said. "It's much

“There’s a segment of the sector that, unfortunately, is becoming a bit marginalized because of lack of scale, lack of specialization, and lack of technology capabilities.”

Skip Hagerty
Philo Smith & Co.

more focused in subject matter expertise. The customer, the ultimate insured policyholder, when they think through how things are brokered and how product is distributed, expects an extremely high level of competency and focus from their wholesale brokers. That’s exactly where success has been driven. When you think through how you navigate through a treacherous insurance market, both claims- and pricing-wise, the expertise and specialization is fundamental to being able to move through that.

“One of the things the wholesale industry has done is take a page out of some of the largest retailers in terms of managing, aggregating, repackaging and selling their data. Frankly, from where I sit, some of those tools have been fantastic,” Johnson said. “In particular, as a carrier trying to sell and be profitable in specialty, what better place to get data than the wholesale market, and, in particular, the more esoteric the lines you get, not just the professional lines.”

The Tech Factor

“What we typically find is that operations that specialize in a product or industry generally have good technology platforms that complement their specialty focus,” Hagerty said. “And their technology helps them assess risks better and do it more efficiently. So, their carrier partners benefit from the better risk selection while the wholesaler benefits from greater operating efficiency, which translates into more profit.”

“Technology indeed is a great blessing but can sometimes be a curse on the agent or broker’s perspective. It’s the thing that keeps them up at night. The reason why is cyberrisk. We’ve been talking and hearing about this for so long, but it’s very confusing,” Stegall said. “There’s no standardization of forms. Practically every business has some special need. New risks constantly appear on the horizon. Realizing the number of silent-cyber provisions in property policies that have not been fully considered, the NotPetya cyberattacks have brought silent-cyber exposures to the fore, to a new pinnacle over the last two or three years.”

Wholesaling may have strong prospects overall, but not all competitors face equal prospects, Hagerty noted.

“There’s a segment of the sector that, unfortunately, is becoming a bit marginalized because of their lack of scale, lack of specialization, and lack of technology capabilities,” Hagerty said. “And, it’s reflected in their financial performance. There was a time when a smaller, generalist wholesaler could do pretty well. Now, their longer-term viability is being called into question more and more.” BR

AM BestTV

Go to *bestreview.com* to watch the video of this panel discussion.

(Climate) Change for the Better

Peak Re CEO Franz Hahn says the insurance industry should partner with government and academia to fast-track responses to global warming.

by Meg Green

Peak Re recently became the first reinsurer to issue public hybrid securities in Hong Kong. The $250 million move, which was driven by growth opportunities around the world, was wildly popular, said Franz Hahn, CEO of Peak Re. "But it's just a typical step in the way to develop the company to where we want to have it," he said during a recent conversation with *Best's Review*.

Following is an edited transcript of that interview.

Can you tell us about the hybrid securities and how you intend to use the proceeds?

It's the first capital raised since the beginning of the organization. We are excited to have it as public hybrid, which is listed at the Hong Kong Stock Exchange. It's trading actively, which is very good. The intention to base a hybrid structure, basically capital structure, is driven by the growth opportunities which we see in the market—not only in Asia, but around the globe.

It's always good to diversify your shareholder base. This is diversified capital coming in, which is highly welcome by us as well.

We were happy when we launched it to see that it was highly oversubscribed by four times, and we could convince a lot of international investors to subscribe to the hybrid.

It's the first issuance in Asia since 2017 of a G3-denominated U.S. dollar, yen or euro hybrid, and the first time [by] a financial service organization in Hong Kong. That's quite unique, and it's good, but it's just a typical step in the way to develop the company to where we want to have it.

What is the potential for ILS growth in Asia?

ILS helps us in various areas. We have had two issues, [our] sidecar, called Lion Rock—Lion

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

Rock I and Lion Rock II—which was [increased to $77 million] this year. We have a strong following on this.

It's supporting some of our natural catastrophe underwriting, and it's offering a very nicely diversified portfolio to the capital investors.

We also have invested in a fund in Bermuda called Lutece. We renamed it Peak Capital, as we see huge opportunities coming our way.

The natural catastrophe exposure aggregates are growing very strongly, specifically in China and in India, and they are rising very fast from a property catastrophe business perspective. We see this as a huge opportunity for Peak Re, being located right in the center of Asia-Pacific.

On the other hand, we see also a rising interest of Asian capital, specifically northern Asian capital from Japan, South Korea and China, with interest in alternative investments, and specifically alternative investments which are related to ILS. Both things are coming together, and we are strongly interested to make use of it.

Then there are other risks which have a potential to be ready for ILS structures. The agriculture aggregates in India are growing very fast. It's government-sponsored, but the risks need to find their way to capital. ILS is a possibility for this.

Everything would not be possible if we [didn't] have a first-class analytical team around Iain Reynolds, who is running it, to adequately calculate and model the various risks, because some of the risks which we bring to the international capital market are quite new to the capital market. That speaks to the diversification we bring.

It's a good opportunity for who we are—an Asia-based, international reinsurer.

Can you tell us a little about the advantage of being based in Hong Kong, and where you're seeing growth in Asia-Pacific today?

On a short-term basis I look at COVID-19, which started possibly in Asia and China. China had a good means of getting over it, and the rest of Asia as well. I think it is because we are in a place that has had a couple of epidemics in this century already.

There is a matter-of-fact [attitude] about it. Whenever there is flu time, when there is winter time, you see many people very naturally wearing masks. The advantage it brings is that after a short blip in March and in April, the economy is back. It's back on growth.

Hong Kong is in the center of Asia-Pacific. From here, you can reach any points within Asia-Pacific in relatively short time. The new trade deal between ASEAN and China is very exciting, and it shows the growth momentum this area is offering to the insurance and reinsurance industry.

> "We should be much faster to adopt our aims in ESG—much faster than saying, 'In 10 years, we will be coal free,' or 'In 10 years, we will be modern slavery free.'"

I'm very much aware whilst I'm saying that, that under-penetration is still a big issue in emerging Asia. It not only has to do with the sluggish demand and the sluggish supply, but it also has to do with the growth momentum of a middle-class society in Asia-Pacific, which makes already 60% of the world population. The insurance and reinsurance industry, we need to spend efforts to get them covered over time. Basically, we are running behind the target.

How has COVID-19 impacted the Asia-Pacific market?

In comparison to Europe, for instance, very little. As I mentioned before, it's the fifth epidemic—and the last epidemic has turned into a pandemic, which is COVID-19. Here in Asia it started in 2002 with SARS, which was a huge impact to the society and left very deep scars. A lot of lawsuits were filed after SARS.

By now, the language about original policies and reinsurance policies is very clear, so COVID-19 didn't hit us as a surprise. Asia has an advantage because it was better prepared, and it can concentrate much more on getting back to growth, getting back to the original agenda, and follow-through.

In the middle of this is the trade pact, which is the largest we have ever seen in the world. It's a tremendous opportunity, and it will bind the entire continent much closer together than we ever have seen before.

As to Peak Re, the impact was limited. We never closed our office. When the various waves of COVID-19 came through Hong Kong, we left it to our staff and their managers to decide whether to work from home. We have the technology to do so.

We even acquired a company in Bermuda, so we were not stopped in our operation. Before the third wave hit Hong Kong, we were back to 95%, 98% in the office. Now we are back again to the same amount.

We have not delayed any processes, unless processes were slowed down by clients because they were harder hit.

What can the insurance market in the rest of the world learn from Asia-Pacific's handling of those past epidemics?

I think it is the language; it is the forms. Now we see … various forms are out there, the various exclusion clauses. I think already now, the European market is learning and the world market is learning from [what] we had to go through, because SARS has been hitting us stronger than anybody else.

The other part, which is a general comment, is the agility of this region. It's to a large extent, young societies. They are forward-looking. They are not negative. They are not pessimistic. They are optimistic. There is a can-do attitude. That's why we built Peak Re in Hong Kong, because this place has this can-do attitude, and people are naturally entrepreneurial and try to overcome challenges.

When I go back to my home from Europe, I sometimes think it would be good to learn from each other a bit more.

"When I go back to my home from Europe, I sometimes think it would be good to learn from each other a bit more."

Where are you seeing challenges in the market today?

Long term, the biggest challenge is global warming. Unfortunately, COVID-19 has taken much attention away. We need to think about what is happening where this global warming goes on, why diversity has been shrinking like never before. It is to a very dramatic extent already.

The industry is really taking the brunt of this over time. I think the integration of insurance with general politics, with academia, is absolutely necessary. Certainly, we all know that our generation, my generation, has been a bit sleepy about it and perhaps in denial for all too long, but now it's time to get started. It's the biggest problem.

Another challenge is to embrace technology change. I'm sure this will happen automatically, the moment organizations see how technology can help. Now we are talking via video call. We are using it, because we know we need it.

The moment you see and you understand that you need technology—let's say automation in business processes between insurance companies, brokers and the reinsurance industry —then we start adopting it. It's much less of a challenge.

The biggest challenge remains global warming. It's for the livelihood of human beings and all living things on this planet.

Is there more the insurance industry could be doing about global warming?

Certainly. The insurance and reinsurance industry is doing a lot, where the ESG [environmental, social and governance] strategy is being rolled out. I think we should adopt it faster. We should be more courageous. I have a big mouth now representing a young company, but even the older companies, we should be much faster to adopt our aims in ESG—much faster than saying, 'In 10 years, we will be coal free,' or 'In 10 years, we will be modern slavery free.'

I think we need to be much more energetic about it. We have so many think tanks as an industry. Perhaps we should have one specialized think tank on a global insurance basis to really push matters forward. BR

AM BestTV

Go to *bestreview.com* to listen to the complete interview with Franz Hahn.

AM Best: UK, European Insurers Under Increasing Pressure

Persistent low interest rates, other economic forces, and regulation have joined pandemic-related coverage as lingering issues, according to AM Best analysts.

by David Pilla

The COVID-19 pandemic casts a giant shadow as the U.K. and European insurance markets navigate current economic, regulatory and political issues, according to AM Best analysts.

Coverage problems brought up by COVID-19 have had the stage in recent months, but persistent low interest rates, other economic forces, and regulation share the spotlight, analysts said at AM Best's Insurance Market Briefing–Europe.

There is a wide range of estimates for COVID-19-related insurance industry losses, from $30 billion to $100 billion, said Carlos Wong-Fupuy, senior director, global reinsurance ratings based in the United States. Reported losses are estimated at $25 billion, including both insurance and reinsurance companies.

"We have a very big component, for example, of event cancellation claims here, which are the most easy ones to be assessed and estimated," said Wong-Fupuy.

"The second big one is obviously business interruption," he said. "We have differences between the situation in the U.S. where policy wordings are much more clear and exclusions are more explicit." Litigation in a number of cases is still to be resolved, he said.

Business interruption has been a big issue in the U.K. market, said Catherine Thomas, senior director, analytics.

"Whether these policies cover BI resulting from government action to control a pandemic such as COVID-19 depends on contract wording," she said. "This has proven to be ambiguous. With variations in both the type of cover provided and the wordings used, we've seen disputes as to whether these COVID-19-related BI claims are valid or not.

"In many cases, what's become clear is that there's a disparity between what the insured believes is covered by the policy, and what the insurer does," said Thomas. "These disputes prompted the conduct regulator in the U.K., the Financial Conduct Authority, to bring a test case to the U.K. courts."

The U.K. Supreme Court was slated to rule by late December on an appeal of the test case that will determine whether insurers are liable to cover the business interruption claims of about 370,000 policyholders who suffered losses from the pandemic.

The British High Court in September ruled in favor of businesses. The conclusion of that was most disease clauses in policy wordings that form

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

"What we have already seen with event cancellation is that some market participants have had to materially increase their loss estimates for this business in the second half of this year, as their assumptions regarding the length of government lockdowns have been revised upward."

Catherine Thomas
AM Best

part of that test case provided cover largely in favor of the policyholder, said Thomas.

"However, denial-of-access wordings were found to be more restrictive, with the validity of these claims hinging on the nature in which the COVID-19 restrictions affected individual businesses," she said. "In our view, that judgment does provide policyholders with increased clarity as to whether they will receive a payment from their insurers. That's a process that otherwise would have been more lengthy and more costly for them."

The insurers themselves now have a better understanding of which policies are expected to respond to claims, said Thomas.

"Event cancellation is another line that has driven COVID-19 losses," said Thomas. Lloyd's estimates that this line of business will be the source of around 40% of its COVID-19 losses, "a material number," she said.

Exposure very much depends on whether cover for pandemics is excluded and whether events are canceled or just postponed, she said. That depends on the length and time of government shutdowns and the time social distancing remains in place.

"What we have already seen with event cancellation is that some market participants have had to materially increase their loss estimates for this business in the second half of this year, as their assumptions regarding the length of government lockdowns have been revised upward," said Thomas.

Financial lines such as D&O and errors and omissions are likely to be affected from claims relating to accusations of poor contingency planning or failure to manage business disruption, she noted.

"Even though COVID-19 losses from these lines' actual reported claims have been limited to date, we do think that as government support falls away and financial pressure on businesses increases, then litigation against companies and their directors will also likely increase, particularly if there's a rise in insolvencies," she said.

AM Best is also keeping a close eye on the development of macroeconomic conditions with a view to whether they will reintroduce investment volatility and strains on liquidity, said Thomas.

Equity markets were expected to remain volatile at least through 2020, said Thomas. "Perhaps more significantly for insurers, bond markets have also been rattled by the pandemic and the responses of governments," she said.

"What we've seen certainly increases the likelihood that interest rates, already at historic lows, will remain at depressed levels for longer," said Thomas. "That is having an impact on all insurers as it impacts reinvestment rates.

"In our view, the industry does have the ability and the willingness to hold the bonds in its portfolio to maturity," said Thomas. "So a temporary dislocation in the market can be weathered by most insurers."

Longer term, to the extent that these market and economic issues persist, the industry will continue to operate in a "very challenging investment environment and that lower for longer interest rates is a norm that insurers have to deal with," said Thomas.

In European markets, challenges generated by COVID-19 are key issues to insurers, said

Ghislain Le Cam, director, analytics, based in London. "Overall, the investment performance, the underwriting performance, remains subject to significant uncertainty," he said.

All the major European markets are expected to have experienced a significant contraction in 2020, he said.

"That's some pretty bad news for insurers, because as the economy shrinks, so does the value and the pool of risks," Le Cam said. "This is expected to weigh on the demand for insurance."

There remains a chance of significant volatility for the months to come, he said. "At the same time, in response to the pandemic, we've seen a number of central banks taking actions to support the economy, and the interest rates were already extremely low."

AM Best's segment market outlook is different from the rating outlook in that in a segment outlook the key factors considered are current and forecast economic conditions, the regulatory environment, product developments and competitive pressures, said Le Cam.

"All the European life segment outlooks for now are negative," he said. "The German life segment outlook was already negative, but we revised the French, the Italian and the U.K. life segment outlooks to negative this year, and decided on a negative outlook for the Spanish life segment.

"The low interest rates have been a challenge for life insurers for years, particularly for those that have high guarantees in their books like in Germany," said Le Cam. "Overall, the low interest rates for longer clearly will accentuate the pressures on the operating margins of European life insurers."

In non-life insurance, the U.K. segment outlook is negative, added Le Cam.

"Over recent years, the U.K. companies have had to deal with some challenging elements to say the least, and that included the changes in the Ogden rate, which is the rate used to calculate personal injury compensation," said Le Cam. "There's claims inflation due to higher repair costs, but also obviously significant challenging investment market conditions that were driven by the political and economic uncertainty associated with Brexit."

Le Cam said U.K. insurers will also need to digest the implication of an FCA market review on the pricing of home and motor insurance that was published recently.

"Overall, the low interest rates for longer clearly will accentuate the pressures on the operating margins of European life insurers."

Ghislain Le Cam
AM Best

"Overall, it's like for the rest of the European insurance sector," he said. "This year [2020] is clearly dominated by the implication of the COVID-19 pandemic for the U.K. non-life segment."

The economic slowdown has impacted premium volumes, and AM Best has seen in some instances some refunds to policyholders in lines such as motor, said Le Cam.

"Another driver for the negative U.K. non-life outlook is clearly Brexit," said Le Cam. "The U.K. left the EU earlier [in 2020]. We are now in a transition period, but all this still creates a lot of political and economic uncertainty that continue to weigh on the insurance market." BR

AM BestTV

Go to *bestreview.com* to watch a video of the market briefing.

Expert Opinions

AM Best: Survey reveals COVID bringing new challenges to professional lines.

by John Weber

The COVID-19 pandemic may spark additional claims for professional lines, said Sridhar Manyem, director, industry research and analytics, and David Blades, associate director, AM Best.

AM Best recently conducted a survey in conjunction with the Professional Liability Underwriting Society. The survey asked the society's members about the impacts of the pandemic on the professional liability insurance segment.

"We got close to a hundred responses from a very diverse set of people," Manyem said. "It included agents, underwriters, brokers, executives, so on and so forth. It was a really good survey for us to get into the minds of the industry to figure out what the impact of the pandemic was on different lines and how they are seeing these lines prospectively."

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

Both directors discussed the Best's Special Report *Professional Liability Insurers Navigate Uncertain Terrain Amid Pandemic* with AM BestTV. Following is an edited transcript of the interview.

What lines comprise the professional liability segment? How were these lines faring heading into the pandemic?

Blades: In general, professional liability insurance protects professionals such as accountants, attorneys, physicians and many others against negligence and other claims that are brought against them by their clients.

These are the types of professionals who have a particular expertise in an area that needs this type of insurance because general liability policies do not offer protection arising out of business or professional practices, such as negligence, malpractice or misrepresentation.

Depending on the type of professional person that's involved, professional liability insurance can be referred to as errors or omissions insurance for professionals such as real estate or insurance agents.

Professional liability policies are usually written on a claims-made basis, which means that coverage is good only for the claims that are made during the policy period. They typically indemnify the insured against losses arising out of any claims made for any covered error or omission or negligent act committed during the conduct of that insured's professional business.

With that as a backdrop, in this report our focus is on five specific professional liability coverages—directors and officers liability, errors and omissions liability, medical professional liability, employment practices liability, and then we also touched on cyber liability.

With respect to cyber, there are some E&O policies that include varying, generally small amounts, of the same type of coverage that cyber policies provide but there are some key differences.

Because of some of the blurring of those coverages between the cyber policies and the professional liability policies, we and our contacts at PLUS felt it was appropriate to cover cyber liability in our report.

How were the lines faring heading into the pandemic? Challenging market dynamics across the vast professional liability landscape caused AM Best to revise its outlook on the professional liability segment from stable to negative back in March of [last] year.

In arriving at that decision, we cited a few specific reasons. We looked at the conditions in the D&O market, which is probably the largest segment, premium-wise, in terms of the overall professional liability market.

From a D&O perspective, and public D&O in particular, those market conditions were clearly hardening after years of depressed rates due to capacity-driven competition that led D&O insurers to suffer growing underwriting losses in the last few years.

The medical professional liability segment also carried its own distinct negative outlook heading into 2020. That outlook was tied to rising loss cost trends, diminishing prior year loss reserve redundancies, and depressed demand, along with concerns for rate adequacy.

Underwriting results for that line had also been deteriorating. Again, that factored into the negative outlook that AM Best already had on the medical professional liability segment coming into 2020.

Loss severity for D&O, E&O and EPL [employment practices liability] had already become problematic in recent years due to the rising cost of litigation attributable to social trends—or what's commonly referred to as social inflation.

The EPL segment had been plagued by a notable increase in harassment suits, a lot of them probably attributable to the #MeToo movement.

Then, looking at it from the cyberrisk standpoint and privacy liability, those exposures had been increasing because cyber in general is an increasingly complex topic. Those risk characteristics have been making cyber liability pretty difficult from an underwriting standpoint for underwriters coming into 2020.

When you look at it from that standpoint, those are how those individual five lines of professional liability coverage were behaving coming into 2020.

Given the health care ramifications, what did respondents say about the MPL line?

Blades: Coming into the year, whether the issue was rate adequacy or rising loss cost trends, MPL insurers were already feeling pressured. Then the onset of the pandemic led to staff shortages due to the deluge of patients that needed attention during the initial wave of the pandemic.

There was also a lack of needed medical supplies initially that created a heightened level of risk for health care professionals to potentially be hit by a number of lawsuits to the extent that the level of care they were providing was being compromised in some way.

The depth of the problems being faced by health care professionals working in long-term care and nursing home facilities was particularly acute.

Nursing home and long-term care facilities, those are institutions that have suffered a comparatively large number of COVID-19 deaths. That led to increased chances that the families of lost loved ones might file suit alleging some sort of inadequate care was being provided.

D&O insurers were already being tested before COVID. What did the survey results show on what's happening since the pandemic surge?

Blades: For insurers of public companies, D&O specifically, the issues have only become more complex and potentially hurtful to underwriting results since the pandemic.

Public companies had to deal with questions and potential lawsuits that were centered on their response to the pandemic and whether that response was deemed transparent and comprehensive—as transparent and comprehensive as it needed to be.

Retentions on D&O accounts had already been rising due to the escalating cost of defense. Insureds had to raise their attention as to how much they were retaining in terms of those policies coming into this year. That's probably only going to continue trending upward as we go forward.

That's because the defense costs are only going to continue rising due to COVID-19 claim activity. Both public and private companies have been fighting through the economic downturn that's attributable to the pandemic in order to keep their companies afloat in the current economic environment.

They are having their actions, all their actions, heavily scrutinized by their customers, their employees and their shareholders. To the extent that ... those market constituents hold corporate managers responsible for the weakened state that some companies find themselves in, lawsuits are emerging that D&O insurers are going to have to defend.

Whether those lawsuits go to trial or not, rising legal costs are definitely a reality for D&O insurers.

Given the work-from-home environment, how has the cyber insurance landscape been impacted?

Manyem: The line has evolved considerably from an E&O policy to a stand-alone product that incorporates a variety of hazards that it covers.

Especially with the work-from-home environment, hacking techniques have become much more advanced as they combine powerful computer code along with social engineering methods like behavioral dynamics in order to penetrate into networks and computers, and compromise the privacy and security of these networks.

Clearly the demand for cyber insurance has increased a lot. Insurers are aware, not just about affirmative cyber losses that they provide, but they are also being really careful about the silent cyber, the cyber hazards that are hidden in different, other policies such as in D&O or medical malpractice liability kinds of insurance.

Definitely, awareness has increased. Of course, there is a lot of pressure from regulators like the GDPR [the EU General Data Protection Regulation], the California Consumer Privacy Act and so on. Other regulations put a lot of pressures on businesses in order to make sure they protect personally identifiable information and make sure that they have methods in place if that information is compromised.

Ransomware of course has been a growing source of consternation across the industry. The pandemic has made hackers more active. In terms of the impact of the pandemic per se, cyber ranks a little bit behind employment practices liability, MPL and D&O in terms of the impact but definitely there were comments that mention that cybercrime was on the rise.

Health care, in particular as an industry, with more monitoring and other kinds of medicines, will lead to ambiguity between product liability, E&O, cyber and MPL. There's a lot of risk still out there.

Were there any other big takeaways from the survey?

Manyem: The other line that we really didn't talk about that much was EPL, employment practices liability. It looks like they have had to field a higher frequency of claims due to the pandemic because there have been millions of workers who have been furloughed or had their salaries renegotiated or have work-from-home arrangements at play.

These definitely are creating a lot of uncertainty in the EPL line because of all these issues. Separate from the pandemic, I think there are a lot of others. David mentioned the #MeToo movement. There's increasing awareness of racial injustice and the federal Equal Pay Act that bars discrimination between men and women in terms of pay.

All these issues are definitely rising to the fore and creating more litigation and pressure on EPL insurers. BR

2021: The Year Of Liability Claims

Pandemic-related claims and complaints are expected to keep insurers and courts particularly busy into the new year.

by Ed Burtnette

As COVID-19 continues to spread throughout the United States this winter, the number of liability claims is expected to increase, reversing the downward trend seen in 2020.

Liability claims will probably have the largest impact on claim counts at the end of 2021, persisting into 2022.

Best's Review contributor **Ed Burtnette**, CCLA, is vice president, Liability Services, for CorVel. He can be reached at *bestreviewcomment@ambest.com*.

Although 2020 numbers have yet to be finalized, we estimate that liability claims will decline by more than 50%. No doubt a part of that decline can be attributed to mitigation strategies adopted by employers and carriers in the wake of COVID-19, but the bigger factor may well be the lower level of economic activity in general. As the economy slides downward, so typically do liability claims.

An example of the pandemic impacting specific types of claims is the frequency of auto collisions and bodily injury incidents, which declined during the first surge of the pandemic. However, the severity of these claims increased. With less traffic on the road, the average speed of vehicles increased; when an accident occurred, it was likely to be more serious due to vehicle speed.

Legal actions, which often accompany liability claims, also have been impeded because of the pandemic's impact on state, local and federal courts. We anticipate that an ever-growing backlog of liability claims, as well as increased litigation, will continue to develop during 2021.

In contrast to a decline in total liability claims during 2020, liability complaints and lawsuits related to COVID-19 increased. Although figures remain estimates, COVID liability legal actions last year exceeded 6,000 complaints (court filings and administrative complaints), according to COVID-19 Complaint Tracker compiled by Cognicion for the law firm Hunton Andrews Kurth.

Significant legal pitfalls involving claims continue to emerge. "Presumption" is a major example. There have been important disputes about whether, because of the nature of their work and accompanying potential exposure, COVID-positive employees are "presumed" to have contracted the virus while on the job. This most often affects first responders, essential workers and retail industries.

Last year, the largest group of COVID legal actions were against insurance companies surrounding business interruption coverage. In 2020, according to figures from COVID Coverage Litigation Tracker by the University of Pennsylvania Law School, more than 1,200 business interruption cases were filed. In most cases, courts have upheld policy exclusions for pandemic and virus coverage.

There are at least three important legal issues that will confront employers and the insurance industry in 2021: vaccines, federal and state liability protection issues, and additional presumption legislation.

The good news is that in the wake of the swine flu, Congress passed the Public Readiness and Emergency Preparedness Act of 2005, which provides liability protection to the developers, distributors and administrators of a pandemic vaccine. In May of 2020, the secretary of Health and Human Services triggered the provisions of the law when he signed a declaration that a public health emergency exists for the COVID-19 pandemic.

Unless Congress adopts liability protection legislation, the pandemic will continue to expose employers to significant liability risks.

In September, Rand Corp., in an analysis of product liability for COVID-19 vaccines under federal law, commented: "There should be few concerns on the part of manufacturers, distributors and others regarding the possibility of being sued in an American courtroom for claims related to personal injuries or deaths arising from producing or administering COVID-19 vaccines when they finally become available."

This past July the Safe to Work Act was introduced in the U.S. Senate. The act would provide liability relief for businesses, health care workers and facilities, educational institutions, local governments and more. However, the proposed legislation was referred to committee and no significant action had been taken during 2020.

"This legislation strikes the right balance between ensuring safe environments for workers, providing a liability shield for entities that follow government health guidelines, and preventing trial lawyers from taking advantage of the crisis and filing frivolous lawsuits," said American Tort Reform Association (ATRA) President Sherman "Tiger" Joyce.

Federal employer-liability protection was a key part of the pandemic response legislation proposed in the U.S. Senate. Whether it will get the traction to be passed and signed into law by the president is unclear as of the publication of this article. But unless Congress adopts liability protection legislation, the pandemic will continue to expose employers to significant liability risks.

ATRA reports that 21 states enacted liability laws relating to COVID-19. Although provisions vary widely from state to state, the new laws protect employers and specific industries from COVID-19-related claims unless there is proof of gross negligence or wanton misconduct. The laws affect product liability (mostly personal protective devices), workers' compensation claims (with a focus on essential worker industries like health care and retail, nursing homes, and state and local governments), general liability claims, and premises liability claims.

ATRA also reports that 19 states issued executive or administrative orders in response to COVID-19 in 2020.

Many of these orders focused on issues related to presumption, in which employers such as hospitals, medical organizations, and other health care organizations hold presumptive liability because of the nature of their industries. It is expected that presumption legislation will continue to develop in 2021.

The National Council on Compensation Insurance (NCCI) reports that presumption legislation falls into three categories:

- Bills that establish compensability presumptions for first responders and/or certain health care workers.
- Bills that establish compensability presumptions for essential or frontline workers. These proposals cover other occupations that may be exposed to COVID-19, such as grocery store and pharmacy workers. Several of these proposals also are applicable to first responders and health care workers.
- Bills that establish compensability presumptions for all employees in the state.

With the advent of COVID-19, we anticipate the use of liability waivers by businesses may become more common. Liability waivers generally can be effective for avoiding personal injury lawsuits and potential liability in connection with COVID-19 damages. However, liability waivers for pandemics—specifically for COVID-19 exposure, contraction and/or spread—have not been interpreted by the courts. These waivers may conflict with public policy and can be a challenge to enforce.

Even if the waivers do not provide complete protection, they can support businesses informing customers and suppliers of the risks associated with COVID-19. Many waivers, for example, cite the value of wearing a mask and engaging in social distancing to mitigate potential spread of the virus and accompanying liability. If waivers increase awareness and spur more use of protective measures such as masks and social distancing, liability will be indirectly reduced.

Still, defense firms report that dockets are full because the courts were slow to resolve earlier backlogs caused by restrictions imposed by the pandemic. It is only now that COVID cases are being heard, and delays will persist through 2021 and into 2022.

The system will struggle to handle the increasing caseloads at the same time it confronts difficulty in assembling jury pools. Individuals are avoiding jury duty because of COVID transmission risks. Exacerbating matters, jury pools often are made up of a larger percentage of seniors, who are at more risk from the virus.

We anticipate an increased use of remote juries and remote trials. Using Zoom, the first remote jury pool occurred last spring for a case in Collin County, Texas, involving a large property insurer and a conflict over coverage, according to the National Center for State Courts.

Since last spring, the most significant potential liability has often been associated with high-population facilities such as prisons, nursing homes and other health care facilities. We have seen superspreader events among large crowds—that can and should be controlled—such as night clubs, college campuses, religious services (including funerals), protest marches and political rallies.

As the virus continues to spread, we expect increasing liability claims related to these situations. Facilities and events can produce increased risk if state and local laws, for example, fail to require masks to be worn. We have seen wrongful death claims and class actions around these situations. State and local health departments may hold increasing liability if they fail to monitor safety guideline compliance for nursing homes, prisons and other superspreader conditions. Signed liability waivers are becoming more common at superspreader events, but their effectiveness remains a question. BR

Firsthand Accounts Help Peers Move Forward

Bryan Falchuk uses case studies from seven carriers to demonstrate how the industry can adapt to changing expectations and customer demands.

The Future of Insurance: From Disruption to Evolution

For more than a hundred years, insurers have stood by customers at some of their toughest moments, helping people go about their lives and pursue their business ideas without worrying about the risks involved. As customer expectations change, however, so do the ways that insurers respond, says Bryan Falchuk in his new book. Falchuk is managing partner of Insurance Evolution Partners. Following is an edited transcript of an interview with AM BestTV.

What was the inspiration for this book?

I was traveling all over the country, talking to carriers about helping them move forward. I kept hearing the same refrain: ‘pressure on the outside, and yet we’re stuck internally to meet it; legacy software and systems issues; culture; change aversion; regulation, etc.’ ... I think customer expectations are becoming demands. I could help those carriers one-on-one, but I wanted to have a broader impact. This was a mission, if you will, to help our industry move ahead.

AM BestTV

Go to *bestreview.com* to view the full interview with Bryan Falchuk.

What went into the writing of this book?

It was a series of interviews with seven carriers that all have different constraints, different stories, different things they worked on, to hear what went well. What didn’t. What did you learn? How did you move ahead? So we can pull some lessons out that all of us can take from.

What did you learn?

The carriers had three common themes. Customers: Talking to customers, involving them in problem-solving, genuinely listening to them. Employees: Genuinely empowering and engaging them in this process [of moving forward.] ... And lastly, it’s focus: How do you move forward quickly enough to keep learning and changing, but not get taken off the path?

Were there any particular surprises?

The honesty. What I didn’t expect was, “We didn’t do this well.” …There are stories throughout where that honesty is where you actually get the insights.

The title of your book is “The Future of Insurance.” What IS the future of insurance?

I think the future is going to be driven by flexibility. …There’s flexibility in the tools, but flexibility in what we’re ultimately offering out to the market is what’s brewing right now. Giving carriers the ability to respond to that and to plug in those tools to meet customer expectations—that’s the new normal for this industry.

Publisher: InsNerds LLC (June 2020)

—John Weber

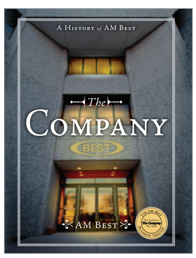
AM Best Trilogy

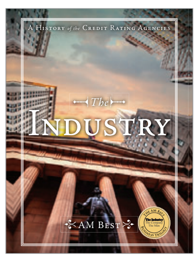
AM Best details the history of AM Best, the history of credit rating agencies, and the life of Alfred M. Best.

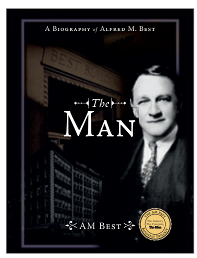
The Company—A History of AM Best

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*.

Auto Insurance Still a Key Focus

Trending news includes AM Best's ranking of top auto writers, a feature about independent agents, an auto insurance claims video and a webinar on the impact of social inflation.

Trending Features from *Best's Review*

1. **Top Auto Writers**
   Ranked by 2019 direct premiums written. (October 2020)
2. **Independent Streak**
   Independent agents take the spotlight following moves by Allstate, Nationwide and others. (October 2020)
3. **Lands of Opportunity**
   Rising ranks of the middle class, wealth creation and an existing protection gap make Asia's lucrative insurance market ripe for multinational players to stake their claims. But the region's diverse cultures and regulatory frameworks also make it a complex environment. (October 2020)
4. **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)
5. **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 last year in the U.S. and in 2019 in Chile illustrate the growing severity of events. (November 2020)

Trending Articles on Best's Insurance News & Analysis

1. **AIG to Spin Off Life and Retirement Business, Names New CEO** (October 26, 2020)
2. **Berkshire Hathaway Insurance Operations Post $213 Million Net Underwriting Loss** (November 8, 2020)
3. **Insurance Executive Pleads Guilty in College Admissions Scandal** (September 23, 2020)

Trending AM Best Webinars

1. **The Impact of Social Inflation on Insurance** (November 10, 2020)
2. **Unique On-Demand Catastrophe Modeling Services for Three Major U.S. Perils—Earthquake, Hurricane and Flood** (September 29, 2020)
3. **The New Normal of Cyber Risk: How Cyber Insurance Has Been Impacted by Changing Global Events** (November 18, 2020)

Trending AM BestTV Videos

1. **Philadelphia Insurance: Auto Claims Severity Up Despite Less Traffic** (November 9, 2020)
2. **Insurance Industry Looks to Federal Government to Backstop Pandemic Risk** (November 17, 2020)
3. **Rising Wildfire Losses Return Insurers to Their Roots** (October 27, 2020)

These were the top trending items from September 23-November 23. Features, news articles and videos were based on page views. Webinars were based on webinar attendance.

The above content can be viewed on demand at *www.bestreview.com*, or by visiting AM Best's home page at *www.ambest.com*.

Market Segment Outlooks For Personal and Commercial Lines

AM Best also comments on COVID-19 economic risks for the U.S. life/annuity industry and the outlook for Peru's insurance industry.

A selection of recent industry research:

Market Segment Report: Market Segment Outlook: US Personal Lines
AM Best's stable outlook is based on the expectation that personal lines carriers will continue to respond appropriately to market challenges.

December 7, 2020 - 5 Pages

Market Segment Report: Market Segment Outlook: US Life/Annuity
COVID-19 economic fallout creates greater risks for life/annuity insurers than do elevated morbidity and mortality.

December 7, 2020 - 5 Pages

Market Segment Report: Market Segment Outlook: US Health
The U.S. health segment is in a strong position to navigate the complexities of the next year, despite the pandemic.

December 7, 2020 - 5 Pages

Market Segment Report: Market Segment Outlook: US Commercial Lines
COVID-19 challenges are likely to continue for the U.S. commercial lines segment in 2021.

December 7, 2020 - 5 Pages

Market Segment Report: Market Segment Outlook: Global Reinsurance
The stable outlook is based on factors such as positive pricing momentum and favorable market dynamics, countered by greater uncertainty in reserve development.

December 7, 2020 - 6 Pages

Market Segment Report: Europe's Captive Segment Poised for Growth
Captives are poised to benefit from the response of the wider insurance industry to the COVID-19 pandemic.

November 30, 2020 - 12 Pages

AM Best Commentary

Commentary: Australia Business Interruption Test Case Raises More Questions Than Answers for Insurers
The latest Court of Appeal ruling leads to greater uncertainty for insurers' COVID-19 business interruption exposure.

November 25, 2020 - 4 Pages

Commentary: Peru Insurance: No Ratings Impact From President's Resignation
The outlook for the country's insurance industry remains at stable owing to sound capitalization.

November 13, 2020 - 2 Pages

Trending AM Best Research

Commentary: Retroactive Legislation, Social Inflation: Credit Negatives for Insurers
(October 12, 2020)

Special Report: Insurers and Reinsurers: Ignoring ESG Factors Poses Reputation Risk
(November 16, 2020)

Market Segment Report: Events of 2020 Impacting Nonstandard Auto Market Performance
(November 18, 2020)

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.*

ESG's Role in Insurance, Understanding EMEA Trends, A Market Briefing

AM Best Webinars

Experts discuss environmental, social and governance criteria, innovation and the pandemic's impact on the insurance industry.

On Demand

ESG in the (Re)Insurance Market—What's Considered?

Panel members discuss takeaways from AM Best's recently conducted Environmental Social & Governance (ESG) survey, modifications to the Best Credit Rating Methodology relating to ESG factors, and key implications of ESG adoption for the insurance industry.

AM Best's Methodology Review Seminar

A deep-dive analytical seminar focusing on EMEA trends such as innovation, IFRS 17 and ESG, and examining AM Best's COVID-19 stress tests through the lens of Best's Credit Rating Methodology.

AM Best's Insurance Market Briefing–Europe

This webinar provides an update on Best's Credit Rating activity and Market Segment Outlooks, including notable rating trends, opinions on the reinsurance market, and an analytical roundtable discussion on notable (re)insurance segments and aspects that are impacted by COVID-19, and how the pandemic might be shaping the industry's future.

Webinar Highlights

The State of the Surplus Lines Market, 2020

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

How Active Risk Management Drives Better Customer Engagement

Changes in policyholder lifestyles are spurring changes in risk profiles and insurance coverage. By adopting active risk management programs, insurers can better address those needs while building stronger relationships with insureds. A panel of insurance professionals and consultants examine how active risk management is becoming essential to insurance success.

View These and Other AM Best Webinars

- The Impact of Social Inflation on Insurance Claims, Industry.
- Data Driven: How Auto Insurers Can Tap Diverse Vehicle Data.
- US Multiperil Crop Market—2020 Challenges and What Lies AheadAnnuity Insurers.

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

AM BEST TV

Insurers Seek Federal Backstop To Pandemic Risk

Lawmakers are considering two proposals that address business interruption insurance related to COVID-19. AM BestTV and AM BestAudio report on stories from a number of sectors within the insurance industry.

On Demand

Lawmakers Consider Two Proposals Related to Business Interruption Help

Legislators are considering two federal pandemic risk proposals, as the business interruption exposure due to the coronavirus is larger than the private market can bear alone, industry watchers, including Jennifer Platt, vice president, federal operations, International Council of Shopping Centers, said.


Jennifer Platt

Philadelphia Insurance: Auto Claims Severity Up Despite Less Traffic

Fewer cars on the road have led to increased speeding and higher auto claims severity, said Andrew Shockey, AVP, risk management, Philadelphia Insurance Cos.


Andrew Shockey

Risk Information Inc.: Virtual Claims, Social Justice Challenge Property Lines

Last year saw accelerating change in the property insurance industry, said Brian Sullivan, owner and editor, Risk Information Inc. Social justice and virtual claims were part of an “exciting” time.


Brian Sullivan

Guy Carpenter: Governments Turn To Capital Markets to Finance Cat Risk

Climate change is driving governments to look for alternative ways to pay for catastrophe losses, said Josh Darr, head of North America Peril Advisory, Guy Carpenter.


Josh Darr

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

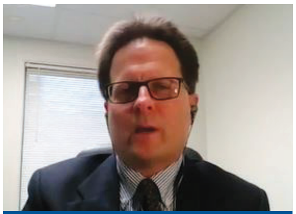
US Rep. Maloney: Proposed PRIA Needed to Protect Businesses

The Pandemic Risk Insurance Act would create a federal backstop for a public/private partnership for business interruption insurance, said U.S. Rep. Carolyn B. Maloney, D-N.Y.


Carolyn Maloney

Attorneys: Fires Blamed on Lithium-Ion Batteries Can Spark Litigation

Liability related to batteries can be particularly complex, said Rich Vicars of Jensen Hughes, and Ryan Pierce of the law firm of Reeves & Brightwell. Identifying the manufacturer of a defective device, for example, often requires microscopic investigation.


Rich Vicars


Ryan Pierce

III: Federal Solution Needed For Pandemic-Related Insurance

Businesses are frustrated with the lack of pandemic business interruption coverage, a risk so large the federal government needs to be involved, said Sean Kevelighan, CEO of the Insurance Information Institute.


Sean Kevelighan

Pandemic Accelerates Digital Transformation

Industry professionals talk with AM BestAudio about how the coronavirus has forced insurers to improve information technology and their engagement with customers.

Insurers Revamp IT To Meet New Demand

Tony Grosso, head of global marketing, EIS Group, discusses how outdated IT architectures have hindered insurers, but the global pandemic has forced them to step up their game.

Customer Experience Key To Retaining, Growing Business

Yoann Michaux, senior partner, enterprise strategy & iX Insurance lead at IBM, explains that insurers must recognize the need to better engage their customers, especially in the digital age.

Find AM BestAudio at *www.ambest.com/ambaudio*.

BEST'S REVIEW®

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This edition lists all Credit Rating actions that occurred between Nov. 1 and Nov. 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								
⊕	H	First Reliance Standard Life Ins Co *Tokio Marine Holdings, Inc.*	009418	A++ aa+	Stable Stable	A+ aa	Stable Stable	New York
⊕	L	Reliance Standard Life Insurance Company *Tokio Marine Holdings, Inc.*	006990	A++ aa+	Stable Stable	A+ aa	Stable Stable	Illinois
⇅	H	SILAC Insurance Company *SILAC, Inc.*	006342	B+ bbb-	Positive Positive	B+ bbb-	Stable Stable	Utah
AMERICAS PROPERTY/CASUALTY								
⊕	P	AES Global Insurance Company *The AES Corporation*	075701	A- a-	Stable Stable	B++ bbb+	Stable Stable	Vermont
⇅	P	American Heartland Insurance Company *United Equitable Group, Ltd.*	011662	C- ccc-	Stable Negative	C- ccc-	Stable Stable	Illinois
⇅	P	Bremen Farmers Mutual Insurance Company	003374	B++ bbb+	Positive Positive	B++ bbb+	Stable Stable	Kansas
New	P	Fortegra Specialty Insurance Company *Tiptree Inc.*	020936	A- a-	Stable Stable			Arizona
⇅	P	Indemnity National Insurance Company *KEWA Financial Inc.*	013137	A- a-	Stable Stable	A- a-	Negative Negative	Mississippi
⇅	P	Kansas Mutual Insurance Company	000536	A- a-	Positive Positive	A- a-	Stable Stable	Kansas
⇅	P	Kentucky Employers' Mutual Ins Authority	011781	A- a-	Stable Stable	A- a-	Negative Negative	Kentucky
⇥	P	MGIC Reinsurance Corp of Wisconsin	011882	NR nr		A- a-	Stable Stable	Wisconsin
New	P	Obsidian Specialty Insurance Company *Obsidian Insurance Holdings, Inc.*	020917	A- a-	Stable Stable			Delaware
New	P	Orion Reinsurance (Bermuda) Ltd. *Orion Holdings (Bermuda) Ltd.*	076704	B+ bbb-	Stable Stable			Bermuda
⇅	P	PrimeOne Insurance Company *Freyja Holdings, Inc.*	014117	B+ bbb-	Stable Stable	B+ bbb-	Negative Negative	Utah
⊕	P	Safety First Insurance Company *Tokio Marine Holdings, Inc.*	012476	A++ aa+	Stable Stable	A+ aa	Stable Stable	Illinois
⊕	P	Safety National Casualty Corporation *Tokio Marine Holdings, Inc.*	000818	A++ aa+	Stable Stable	A+ aa	Stable Stable	Missouri
⊕	P	Safety Specialty Insurance Company *Tokio Marine Holdings, Inc.*	022607	A++ aa+	Stable Stable	A+ aa	Stable Stable	Missouri
New	P	Trusted Resource Underwriters Exchange	020873	A- a-	Stable Stable			Florida
⇅	P	United Equitable Insurance Company *United Equitable Group, Ltd.*	002460	C++ b	Negative Negative	C++ b	Stable Stable	Illinois

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	Upland Mutual Insurance, Inc.	000940	B++ bbb+	Stable Stable	B++ bbb	Stable Positive	Kansas
New	P	Vantage Risk Ltd. *Vantage Group Holdings Ltd.*	074580	A- a-	Stable Stable			Bermuda
–	P	Vault E&S Insurance Company *Fairfax Financial Holdings Limited*	020586	A- u a- u	Developing Developing	A a	Stable Stable	Arkansas
⚑	P	Vault Reciprocal Exchange *Fairfax Financial Holdings Limited*	020564	A- u a- u	Developing Developing	A- a-	Stable Stable	Florida
⇥	P	Weston Insurance Company *Weston Insurance Holdings Corporation*	014386	NR nr		B bb	Negative Negative	Florida
EUROPE, MIDDLE EAST AND AFRICA								
⇅	P	Chaucer Insurance Company DAC *China Investment Corporation*	095994	A a	Stable Positive	A a	Stable Stable	Ireland
⇥	C	Jordan International Insurance Company	078963	NR nr		B bb+	Stable Stable	Jordan
⊕	C	National Insurance Company	092539	B bb	Stable Stable	B- bb-	Positive Positive	Jordan
⇥	P	Navigators International Ins Co, Ltd.* *Hartford Financial Services Group, Inc.*	088277	NR nr		A- a-	Negative Negative	United Kingdom
ASIA-PACIFIC								
⇅	P	China Continent Prop & Cas Ins Co Ltd *China Investment Corporation*	090956	A a	Stable Positive	A a	Stable Stable	China
⇅	L	China Life Reinsurance Company Ltd *China Investment Corporation*	090957	A a	Stable Positive	A a	Stable Stable	China
⇅	P	China P&C Reinsurance Company Ltd *China Investment Corporation*	088692	A a	Stable Positive	A a	Stable Stable	China
⇅	C	China Reinsurance (Group) Corporation *China Investment Corporation*	090955	A a	Stable Positive	A a	Stable Stable	China
⚑	L	Lifetime Income Limited *Retirement Income Group Limited*	094359	B u bb u	Negative Negative	B bb	Stable Stable	New Zealand
⇅	P	Singapore Reinsurance Corporation Ltd	085224	A- a-	Negative Negative	A- a-	Stable Stable	Singapore
AMERICAS								
New	P	Afianzadora G&T SA *GTC Investments, Ltd.*	092736	A- a-	Stable Stable	NR nr		Guatemala
New	C	Compania Reaseguradora del Ecuador SA	077239	B++ bbb+	Stable Stable	NR nr		Ecuador
New	C	Seguros G&T, S.A. *GTC Investments, Ltd.*	078175	A- a-	Stable Stable	NR nr		Guatemala

Holding Companies

Rating Action	Company Name	AMB#	Current ICR	Current Outlook/ Implications	Previous ICR	Previous Outlook/ Implications	Domicile
⊕	Delphi Financial Group, Inc.	058036	a+	Stable	a	Stable	Delaware

*Ratings were downgraded to A-/a- from A/a+ on November 13, 2020. Ratings were withdrawn on November 13, 2020.

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.

Version 121719

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.
nr	Status assigned to entities that are not rated; may include previously rated entities or entities that have never been rated by AM Best.

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Almost Picture-Perfect

Photo estimating for auto claims increases during pandemic.

About 60% of automobile damage claims are adjusted using photographs, up from 10% to 15% from last February, said Bill Brower, vice president, auto claims, LexisNexis Risk Solutions. However, he noted, it's not a smooth process yet.

Brower spoke with AM BestTV about how claims handling has changed in the time of COVID-19.

Following is an edited transcript of the interview.

Bill Brower

What impact did COVID-19 have on claims automation?

It's really had a significant impact on claims automation. If you think back, with the changes that have taken place this year, it's just really amazing. A couple of areas that highlight the changes would, first, be the way auto claims are processed.

Today, they're primarily handled from photo estimating or what we call virtual claims handling. Today over 60% of claims are being processed with photographs from the customer. If you had asked me that percentage back in February, I would have said somewhere in the 10% to 15% range. It has dramatically increased.

The rapid move to virtual is very interesting. What was the impact to consumers?

Consumers receive faster claim settlements for auto claims today. Very interesting how this photo estimating has made that claims estimating process so simple.

A customer, as you know, today can simply take a few pictures with their smartphone, send those to their insurance company, and in a few hours, they will likely have the estimate for the repair of the vehicle and [can] go ahead and begin getting that car in a shop and getting the repairs completed.

Now, that's positive. In fact, a J.D. Power survey showed record results, the highest-ever results for customer satisfaction on auto claims. A good part of that had to do with convenience and ease of photo estimating.

There is a negative to this, and we've tried to make sure that our insurance partners are aware of this and taking action on it. The way we identified this is LexisNexis captures data from across the industry, the U.S., daily from many of our carriers. Most of our carriers provide frequent updates.

What we were able to do is take some of that data and look at claims to see if anything unusual was happening as we began to make this rapid move toward photo estimating. What we found was the claims that are paid quickly, less than 10 days—which tend to be the photo estimates—we're seeing a lower severity on those payments after COVID began, about 20% lower. It's pretty significant.

We follow the claim. As we see the car being repaired and the supplemental payments coming in later, we find that the supplemental payment is more than 20% higher than the previous payment.

The total payout on the repair of the car is actually a little bit more than it was before COVID began. You might think of it as the customer's really OK. As long as they're putting the car in the shop, getting it repaired, whether the money comes in the beginning of the claim or the end of the claim, they're still getting paid for the damages to the car.

The one area that we caution insurers to be aware of are those customers that may not want to get the car repaired. Perhaps, they tell their insurance company early on they're thinking of trading the car. They're just not sure they want to repair it.

In those situations, we encourage the insurance companies to recommend that those individuals take the vehicle by one of their direct repair shops or shop of choice for a personal inspection to make sure that that initial claim estimate is in line with the damages, because some of those damages are difficult to see with photographs.

We're getting better. There's actually some software available now in the estimating space called computer vision or AI that helps adjusters to identify damages that might be hard to see in the photo. We're not there yet.

—John Weber

AM BestTV

Go to *bestreview.com* to watch the interview with Bill Brower.

NAIC Update

Group Capital Calculation adopted and new slate of officers chosen.

Members of the National Association of Insurance Commissioners have adopted a Group Capital Calculation along with model legislative language designed to enable it after state legislatures adopt it.

The NAIC's Group Capital Calculation (E) Working Group developed the GCC in a project that began in 2015, it said in a statement. It provides U.S. solvency regulators with an additional analytical tool for conducting groupwide supervision, it said.

According to the NAIC, it will quantify risk across an insurance group and provide transparency into how capital is allocated. In addition, it provides key financial information on the insurance group to assist regulators in understanding the financial condition of noninsurance entities, among other benefits.

"The GCC provides yet another analytical tool added to state insurance regulators' toolbox on group supervision since the 2008 financial crisis, and will complement the Form F Enterprise Risk Report, Own Risk and Solvency Assessment reporting and the Corporate Governance Annual Disclosure," said David Altmaier, Florida insurance commissioner and chairman of the NAIC's Group Capital Calculation Working Group. "All of these tools have been developed in a way that is cost-effective and appropriate for the U.S. system, with the GCC being less costly and burdensome than other 'consolidated approaches,' and in a way that respects other jurisdictions' existing capital regimes."

The NAIC's work on the capital calculation was developed while the International Association of Insurance Supervisors works on plans to implement a global insurance capital standard intended to bridge differences between jurisdictions in valuation regimes.

The National Association of Mutual Insurance Companies said finalization will give state insurance regulators the tools they need to demonstrate the strength of the U.S. system to regulators in the European Union and around the world, said Jon Bergner, vice president of public policy and federal affairs, NAMIC.

However, NAMIC is disappointed by the "last-minute" decision to remove a limited filing option for domestic insurance groups that have a Risk-Based Capital filing entity at the top of the group structure, he added.

"The full GCC filing doesn't provide any information the RBC filing does not, and it is unfortunate that the principle of 'shared compliance pain' won out over the principle of efficient regulation," Bergner said.

An attempt to obtain comment from the IAIS was not immediately successful.

In other NAIC news, at the close of its Fall 2020 National Meeting, the NAIC elected its officers for 2021.

Florida Insurance Commissioner David Altmaier will serve as president; Idaho Insurance Director Dean L. Cameron will serve as president-elect; Missouri Insurance Director Chlora Lindley-Myers will serve as vice president; and Connecticut Insurance Commissioner Andrew Mais will serve as secretary-treasurer.

They will assume their duties on Jan. 1. The election of officers is held annually at the NAIC's Fall National Meeting, the NAIC said in a statement.

—Timothy Darragh

‘An Invaluable Tool’

Guernsey regulator launches pilot pre-authorization for captive insurance cells.

The island of Guernsey’s financial regulator has rolled out a pilot program to allow the pre-authorization of captive insurance cells for existing protected cell arrangements.

The Guernsey Financial Services Commission pilot is expected to run through the end of this year and give captive managers a streamlined avenue to adjust captive arrangements for clients, Guernsey International Insurance Association Chairman Mike Johns said in a statement. “This flexible approach to regulation enables brokers and their clients to react to adverse market developments right up until the renewal date. This will be an invaluable tool to enable buyers to increase their control over difficult renewals during the current hard market cycle,” Johns said.

The program applies to insurance-licensed protected cell arrangements owned by an insurance manager and is available for captive cells writing a single line of general insurance business to meet an urgent business need, according to a statement by We Are Guernsey, a government/industry initiative to promote the island.

Applications must meet the standard formula minimum capital requirement and prescribed capital requirement, with no adjustments available, it said.

Demand for captive vehicles has mushroomed as rates have gone up, said attorney Kate Storey, of Walkers in Guernsey, who helped draft the program. “We proposed this new, swift-authorization regime in response to the huge increase in demand for captive insurance vehicles, particularly over the last 12 months, due to commercial insurers raising their rates and restricting available cover in the so called ‘hard market,’” she said in a statement. “Using a captive vehicle, a business can self-insure in a way tailor-made to its business, and more cost-effectively than through commercial insurers.”

—Frank Klimko

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The Last Word

A Song in His Heart

RenaissanceRe founder Jim Stanard pursues his lifelong passion while continuing his insurance career.

by Lori Chordas

RenaissanceRe founder Jim Stanard has always been passionate about music.

As a young man, he frequented the legendary Main Point coffeehouse in Bryn Mawr, Pennsylvania, where he heard up-and-comers Bruce Springsteen and Doc Watson. He cashed in his childhood coin collection for a Martin D-28 guitar. He played at coffeehouses and open mic nights near Lehigh University, where he earned his bachelor's degree in mathematics. And, of course, he attended Woodstock in 1969.

Photo courtesy of Andres Martinez.

But music soon took a back seat to his day job, what would become a more than 35-year career that included the founding of several insurance intermediaries and reinsurance companies, including RenaissanceRe in 1993.

During that time, however, Stanard's yearning to get back into music never waned. "I always felt that music was my unfinished business," he said.

In 2018, he took the first step toward finishing that business, releasing his debut album, *Bucket List*—a compilation of folk and classic rock songs that critics said showcase Stanard's gift for poetry and narrative.

Two years later, his second album, *Color Outside the Lines*, debuted at No. 12 on the Euro Americana chart in October 2020. Stanard said the 11 tracks on *Color Outside the Lines* reflect "how I see people and the world." Two songs feature friend Peter Yarrow of the Grammy Award-winning folk group Peter, Paul and Mary, and Yarrow's daughter, Bethany.

The skills required to become a creative artist and write songs that share a message and touch audiences, Stanard said, are similar to those needed in business. "Two of the things I learned during my career in insurance and reinsurance are the importance of setting specific goals and being committed to doing the work. I'm doing the same in music," Stanard said. "I set goals such as to how many times a year I want to perform live, and the time I want to devote to writing songs. Repetition, practice. ... It's all very important to achieving those objectives."

Also important is having mentors and role models to help inspire and guide you toward those goals, he said.

Stanard began his insurance career in underwriting and actuarial positions at Chubb and Prudential. He was an executive vice president at USF&G in the early 1990s, before founding RenaissanceRe. In the mid-2000s, Stanard and former Praetorian CEO Rod Fox founded several managing general agencies, along with broker/adviser TigerRisk and private equity investor firm Pelican Ventures. Last summer, Stanard stepped down as chairman of TigerRisk to pursue other insurance ventures with Pelican, including its recent purchase of Ariel Re from Argo Group.

"When I look back over the years, I'm so grateful for all the wonderful opportunities I've had in both insurance/reinsurance and music," noted Stanard. He said he's excited to see where both paths lead and to use what he's learned as a catalyst for future songs. BR

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