Digital Edition PDF

BEST'S REVIEW®

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AM BEST'S MONTHLY INSURANCE MAGAZINE

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BEST'S REVIEW®

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AM BEST'S MONTHLY INSURANCE MAGAZINE

The COVID Transformation

Insurers are rethinking business models, pushing through new digital approaches and re-examining risks at the start of year two of the COVID-19 pandemic.
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The Insurance Industry Begins Year Two of a Brave New World

This issue also includes a look at insurer investments in collateralized loan obligations and a listing of the largest European non-life insurers.

A year ago this month many in the insurance industry walked out the doors of their offices to begin an unexpectedly long experiment in working from home.

As the pandemic drags on, insurers have been impacted in a variety of ways. Certain sectors have been hit with losses. So far, the most exposed lines have been event cancellation, travel insurance and non-U.S. business interruption, D&O, workers' compensation, medical malpractice liability and financial lines, according to a recent Best's Market Segment Report, *Market Segment Outlook: US General Liability Insurance.*

Litigation, especially over business interruption coverage, has been a big story in both the United States and the United Kingdom.

Working from home has been one thing, but more people are now buying from home as well, forcing insurers to rapidly ramp up digital approaches.

March is Innovation Awareness Month. In this issue, *Best's Review* examines the transformation of the insurance industry, reporting on the ways the industry has had to adapt and the new directions insurers have begun to explore.

In "The Pandemic Has Accelerated the Pace of Digital Transformation and Product Innovation in Insurance," *Best's Review* looks at how the pandemic has forced the industry to rethink products and services and raised awareness about future risks.

"I don't think anyone is expecting to go back to the way things were before, and many of the transformations we've seen over the past year are here to stay," said Kenneth Saldanha, Accenture's global insurance lead.

For many, it's been a year since they've had to commute to work. In "Insurers Cozy Up to Remote Work and Reduced Office Space," *Best's Review* reports on how the pandemic has many in the C-suite re-examining their real estate needs.

Best's Review focuses on the impact of the pandemic on the life insurance industry in "COVID-19 a Year Later: Life Insurers Forced Into Digital, Operations Growth in Survival Bid."

With interest rates remaining at low levels, insurers have been on a hunt to find yield. In "Collateralized Loan Obligations on Rise in Life Insurance Asset Management as Quest for Yield Continues," *Best's Review* reports on the industry's growing interest in these investments.

This issue also includes a listing of the 30 largest European non-life insurers based on gross written premium and profit after tax. European coverage is included in "Activist Investor Urges Finland's Sampo to Dump Nordea Bank."

In "Parsyl CEO: The Last Mile of COVID Vaccine Delivery Is Where Insurance Matters Most," *Best's Review* interviews Ben Hubbard, chief executive of Parsyl, an insurtech that uses smart sensors, software and data analytics to reduce shipping risk and provides insurance coverage for those shipments.

Best's Review is preparing its annual ranking of the top global insurance brokers. Visit *www.bestreview.com/brokers* to submit information.

Finally, AM Best has redesigned the Best's Insurance News & Analysis website and added new features to make it easier to navigate and find important insurance industry news and research. Visit Best's News *http://news.ambest.com*, and Best's Research *http://news.ambest.com/research*.

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The Question:

What have you learned after a year of working remotely?

Email your answer to *bestreviewcomment@ambest.com* or scan the QR code to submit your response. Reader responses will be published in a future issue.

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Cover design by Andrew Crespo.

Conference Season Ramps Up with Tech, Reinsurance, More

March 1-3: VIRTUAL. WSIA Underwriting Summit, Wholesale & Specialty Insurance Association.

March 1-2: VIRTUAL. AIFA 2021 Annual Conference, Association of Insurance and Financial Analysts.

March 3-5, March 11-12 and March 18-19: VIRTUAL. Insurance Litigation Conference, American Bar Association.

March 8-11: VIRTUAL. Intercompany Long Term Care Insurance (ILTCI).

March 10-11: VIRTUAL. InsurTech Spring Conference 2021, InsurTech New York and InsurTech Hartford.

March 11-12: VIRTUAL. CPCU Reinsurance Symposium.

March 11-12, March 16-18 and March 23-25: VIRTUAL. Insurance Innovators USA, Marketforce Business Media Ltd.

March 15-17: VIRTUAL. Annual Review Preview Conference, AM Best.

March 22-23: VIRTUAL. IASA Xchange Lite, Insurance Accounting & Systems Association Inc.

March 22-24: VIRTUAL. Cat Risk Management 2021, Reinsurance Association of America.

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

Attending Exhibiting Speaking Hosting Sponsoring

March Is Innovation Awareness Month

As the pandemic moves into year two, insurers are pushing through new digital approaches to reach customers, rethinking products, terms and conditions and considering real estate needs in transformational moves that some say are here to stay. Coverage begins on page 35.

Munich Re America Names Successor for Retiring President, Chief Executive Officer

M. Steven Levy to retire and Marcus Winter moves into new role. Also, K. Douglas Briggs selected insurance professional of the year, Chubb names climate sustainability manager and the Association of Bermuda Insurers and Reinsurers elects officers.

Munich Reinsurance America Inc. named Marcus Winter to succeed M. Steven Levy as president and chief executive officer.

Winter will transition to his new role on April 1.

Levy has announced his intention to retire after 23 years with the company. He has held a variety of key leadership positions, including president of the credit and surety division and chief financial officer. Levy has served as president and CEO of Munich Re US since 2014 and as a member of the Munich Re US property/casualty executive board since 2008.

M. Steven Levy

Marcus Winter

"For over two decades, Steve has played an integral role in shaping numerous aspects of our organization, and we thank him for his many contributions to Munich Re US," said Anthony J. Kuczinski, CEO, Munich Re US Holding.

"Steve tackled the challenges of each of his positions with strength, energy and passion, and maintained an unwavering commitment to our clients and partners."

Winter currently serves as head of reinsurance development for Munich Re. Since 2002, he has held several roles with Munich Re, including head of CU Cross Lines, based in Munich, and general manager, non-life, Munich Re, Australia, based in Sydney.

"With his extensive expertise in reinsurance, underwriting, innovation management and data analytics, Marcus brings a wealth of experience to Munich Re US, and we're pleased to welcome him to the US P&C team," said Kuczinski.

—Staff Report

Quincy Mutual CEO Named Insurance Professional of the Year

The Insurance Library has named K. Douglas Briggs, chairman and chief executive officer of Quincy Mutual Group, as insurance professional of the year.

K. Douglas Briggs

The annual ceremony honors a person who demonstrates leadership and exemplifies qualities that engender an understanding of, and a respect for, the insurance industry. A virtual event will be held in the spring since the fall event was canceled due to the pandemic, according to the organization.

Briggs has been CEO and president of Quincy Mutual Group since 1985. Previously, he was vice president, secretary and treasurer of the company. Prior to that, he was employed by Coopers & Lybrand Certified Public Accountants.

A member of the Insurance Library's board of trustees since 2000, Briggs was president from 2007-2009. He has chaired the group's investment committee for several years. He is a former director of the Property Casualty Insurers Association of America, former governing committee member of the Automobile Insurers Bureau of Massachusetts and past chairman of Mutual Fire Insurance Association of New England, among other positions.

Former President and CEO of Mapfre North America to Return to Role

Jaime Tamayo

Mapfre USA has named Jaime Tamayo to succeed Alfred Castelo as president and CEO, Mapfre North America, a position Tamayo held from 2008 to 2016, at which time he assumed the role of CEO, international territory, for Mapfre Group.

Mapfre also named Jose Manuel Corral to the newly created role of chief operating officer at Mapfre USA.

Castelo led Mapfre North America for the past four years and is now chief business and clients officer for Mapfre Group.

Tamayo, who will have oversight responsibility for Mapfre's Eurasia region, joined Mapfre in 1993. He has held a number of executive positions in the United States, Spain and Puerto Rico.

Corral, who most recently served as Mapfre Group's chief business and clients officer in Spain, will oversee Mapfre USA's day-to-day insurance operations. Since joining in 1993, Corral has served in several executive positions, including deputy general director of business at Mapfre in Spain, regional director of business and clients for the company's Iberia Regional Area, and deputy general director of the corporate business, clients and innovation area.

Chubb Creates Global Climate Sustainability Role

Alexandra Waldman

Chubb has named Alexandra Waldman to the newly created position of climate sustainability manager.

Waldman joined the company, then named Ace, in 2011 as an environmental engineer in the North America environmental risk insurance business. In 2018, she was named senior environmental program manager. Prior to joining Chubb, Waldman completed the associate program in the environmental division of Zurich Financial Services.

Nebraska Insurance Director to Retire

Nebraska Insurance Director Bruce Ramge will retire April 9 after leading the insurance department for the past 10 years.

Bruce Ramge

Under Ramge's leadership, the department improved customer service, streamlined processes, enhanced transparency and successfully aligned Nebraska's insurance regulations with new federal laws and evolving international supervisory standards, according to a statement.

Ramge, the longest-serving director in the department, started in 1984 in the market conduct division. He was named chief of market regulation in 1999 before being named director in 2010. He also served in positions with the National Association of Insurance Commissioners, including leading the market regulation accreditation working group in 2016.

Association of Bermuda Insurers and Reinsurers Elects Grandisson Chair

The Association of Bermuda Insurers and Reinsurers elected Arch Capital CEO Marc Grandisson 2021-2022 chairman of the Association of Bermuda Insurers and Reinsurers during the group's biennial election of officers.

Marc Grandisson

Additionally, Pina Albo, CEO of Hamilton Insurance Group Ltd., was elected deputy chair, and Christopher Schaper, CEO of AIG Re, was elected second deputy chair.

Grandisson, who began his two-year term Jan. 1, was named Arch CEO in March 2018. He joined Arch Reinsurance Ltd. in October 2001 as chief actuary, and subsequently held various leadership roles including chairman and CEO of Arch Worldwide Reinsurance Group and chairman and CEO of Arch Worldwide Mortgage Group.

Albo, who joined Hamilton as CEO in January 2018, is the first female CEO to be elected an ABIR officer. During a 25-year career at Munich Re, she held increasingly senior positions, including president of reinsurance at Munich Re.

Schaper is the group CEO for AIG Re, the global reinsurance business of American International Group Inc. Schaper joined AIG in 2019 and has over 30 years of re/insurance industry experience.

Ascot Names CEO for US Insurance

Ascot has named Matthew C. Kramer to succeed Greg Wolyniec as chief executive officer, U.S. insurance.

Matthew C. Kramer

Kramer will transition to his new role later in the first quarter upon completion of his contractual obligations. He has 24 years of experience and joins Ascot from Arch Insurance Group, where he most recently was executive vice president.

Since 2009, he held growing leadership responsibilities within Arch, most recently overseeing its professional liability and health care divisions.

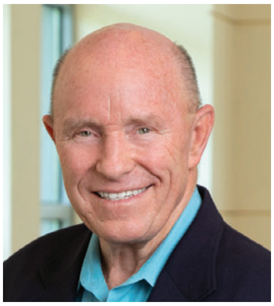
Renaissance Alliance Founders Retire, New CEO Named

Renaissance Alliance Insurance Services Executive Chairman Kevin Callahan has been named chief executive officer of the company, following the retirements of founders Bruce and Janet Cochrane.

Kevin Callahan

Callahan and President Robert Bondi will lead the executive committee. Bruce Cochrane will remain a member of the Renaissance Alliance board of directors and serve as special adviser to Callahan.

The Cochranes started the firm in the late 1990s, with the goal of empowering independent agents to be the dominant force in the insurance industry long into the future. Renaissance Alliance was a pioneer in the insurance aggregator space.



Bruce Cochrane

Janet Cochrane

Markel Creates Talent, Diversity and Inclusion Role, Names Leader

Trevor Gandy

Markel Corp. has named Trevor Gandy in the newly created role of managing director, talent, diversity and inclusion.

He will work closely with the company's human resources leadership team and its global Diversity and Inclusion Steering Committee.

Gandy has 25 years of management experience in the areas of diversity and inclusion, human resources, talent acquisition, and leadership development. He has been a consultant for Markel's D&I initiatives since 2020. Before joining Markel, he was the founder and president of TréGan Consulting, where he helped companies promote and leverage the business value of D&I. He also has served as principal, diversity and inclusion, at Amazon and chief diversity officer at Chubb Insurance.

Highmark Health Names Chief Diversity and Inclusion Officer

Robert James

Highmark Health has named Robert James to succeed Lonie Haynes as chief diversity and inclusion officer.

James will work closely with Margaret Larkins-Pettigrew, Allegheny Health Network's chief clinical diversity, equity and inclusion officer.

James joined Highmark Health in 2015 as supplier diversity director. Prior to that, he was chief executive officer of a diversity and inclusion consulting firm and served in an advisory role with the Office of Minority and Women Inclusion at the U.S. Securities and Exchange Commission.

A practicing lawyer for more than 20 years, he spent several years facilitating historically Black colleges and universities financing for capital projects through a U.S. Department of Education program.

American Equity Names CIO

Tolga Uzuner

American Equity Investment Life Holding Co. has named Tolga Uzuner chief investment officer, asset management.

Uzuner will partner with Jim Hamalainen, CIO of insurance, and Jeff Lorenzen, chief risk officer of AEL. Uzuner and Hamalainen will function as co-CIOs.

Uzuner was managing director of investments at JPMorgan Chase, prior to transitioning to Apollo Global Management. Most recently, he owned Austra Global, providing an outsourced CIO function to new private equity entrants to insurance.

Chubb CFO Retires, Successor Named

Philip Bancroft

Chubb has named Peter Enns to succeed Philip Bancroft as executive vice president of Chubb Group and chief financial officer.

Enns will join the company on April 1 as EVP, finance, Chubb Group, and will replace Bancroft on July 1, when he retires after 19 years with the company. Bancroft is expected to remain with the company in an advisory capacity for the balance of the year.

Enns has more than 30 years of finance and investment banking experience.

Arch Worldwide Leader Gets Expanded Responsibilities

Nicolas Papadopoulo

Arch Capital Group Ltd. promoted Nicolas Papadopoulo, formerly chairman and CEO of Arch Worldwide Insurance Group and chief underwriting officer for property/casualty operations, to president and CUO.

He had been in his former positions since September 2017. Previously, he was chairman and CEO of Arch Reinsurance Group. BR

Masthead: Forestay

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Racing Ahead with Sponsorships and Creating Social Connections

Root Insurance is partnering with NASCAR's Bubba Wallace, and insurers are accelerating their use of social media marketing to create long-term brand awareness and build trust and credibility with consumers.

Pedal to the Metal

Photo courtesy of Wesley Walker

This year **ROOT INSURANCE** is racing into a new partnership with the 23XI Racing family—a premier NASCAR Cup Series team co-owned by NBA legend Michael Jordan and NASCAR star Denny Hamlin.

Root Insurance joins a list of other high-profile sponsors, including DoorDash, McDonald's, Columbia Sportswear and Dr. Pepper, that have aligned themselves with the team and its driver Bubba Wallace in the No. 23 Toyota Camry.

Root began sponsoring Wallace last year when he drove for Richard Petty Motorsports. During the 2020 season, Wallace had five top 10 finishes and one top 5 finish at Daytona in August. He is currently the only full-time Black American driver in the NASCAR series. He made headlines last year after he began speaking out against racial injustice in the U.S. and called for a ban of Confederate flags at NASCAR events.

"From the moment we got to know Bubba's story and what he stood for, we knew this was much more than an opportunity for a traditional sports sponsorship," said Kelly Ruoff, Root's chief brand officer. "It was about aligning values and celebrating a commitment to progress. We don't see a lot of brand partnerships like that, and we love that we could break the mold with Bubba."

Shifting Into Social

Today there are roughly 4.2 billion global social media users, according to Hootsuite. That's creating a gold mine for marketers looking to reach and engage more customers and spread the message about the products and services they provide.

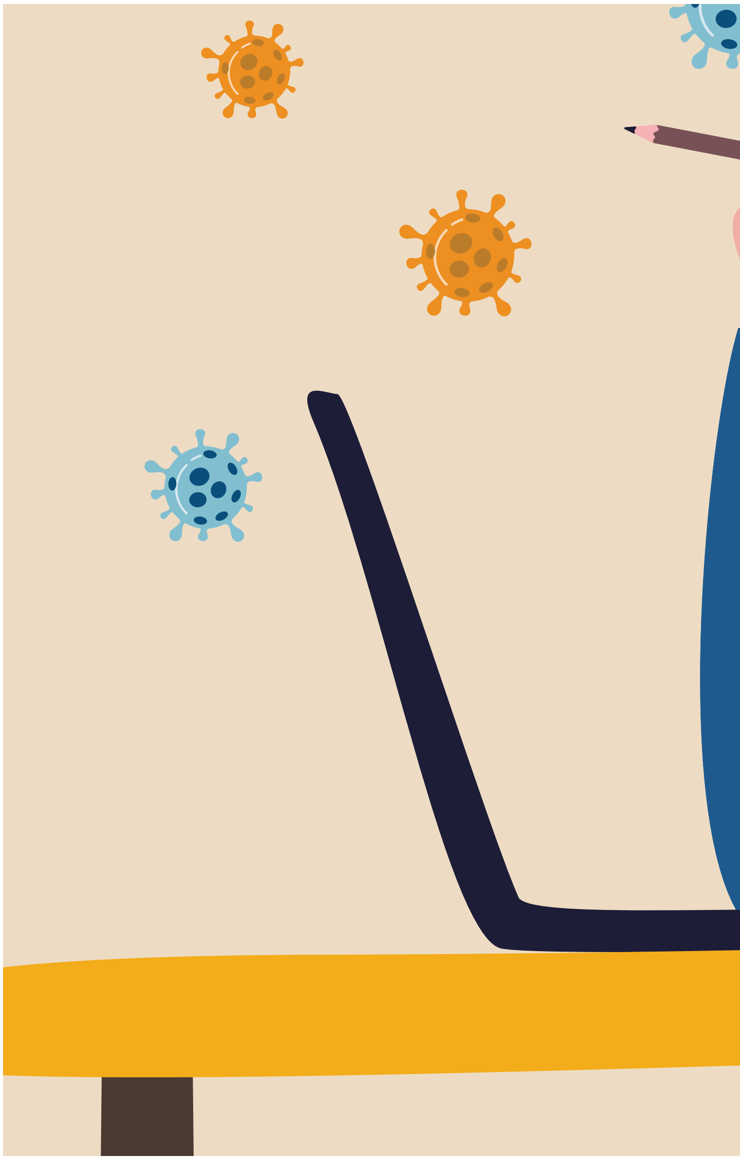
Social media marketing is finding a home in the insurance industry, however, "we're just scratching the surface of its capabilities," said Craig Welsh, chief distribution and marketing officer at Westfield.

He said a key component to social media marketing's success is content. "To generate attention that leads to outcomes, insurers need to curate valuable content that provides in-depth information around products and services in a way that connects the relevance of insurance to everyday life. Insurance can be difficult to market socially because it's not a tangible product, but the key is helping customers solve problems in a way that conveys the benefits of insurance," he said.

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

Next Wave

One Year Later: COVID-19 Is Still Teaching Us Lessons



The pandemic has enlightened us over the course of the past 12 months. We should take care not to lose the wisdom imparted by these trying times.

By **Carly Burnham**

The milestone of living with COVID-19 for a year is something to reflect on.

Last March, we saw many events being canceled or rescheduled such as the NBA suspending its season and we knew right away that our lives had changed. At the time, many of us thought this would be a short-lived change. We'd be in lockdown for a few weeks and get back to living our lives. A year later, and we're certainly not back to normal.

For many of us, this fact is wearing. We have grown tired of thinking about the pandemic daily. And yet, we also realize that though our lives have changed, many of us in the insurance industry are very fortunate. For example, our industry adapted quickly to the requirements of social distancing.

As I reflect on a year of working remotely, I think about how my life in insurance has changed, and how I can improve my ability to be of service over the next 12 months so that as we improve our ability to handle the pandemic, insurance can move forward with some of the lessons learned during our time of remote work.

Here are three things I think we can keep from this time of COVID-19 as we try to return to normal:

- **The ability to work remotely.**

The insurance industry has always had some roles that were almost fully remote by the nature of the work: risk control consultants, claims adjusters and field underwriters. March 2020 saw most of our employees begin to work from home. Over the past year, we have all adjusted to this new reality and found spaces at home to use as our offices.

Initially, all those video calls were draining. And we missed the opportunity to stop by each other's cubicles for a quick chat. But, we have learned that insurance work can be done from anywhere. In the future, we can balance our need to be remote with the need to go into the office. Moreover, we should expand our ability to hire talent from diverse geographies, and allow employees to gain back the time they've spent commuting.

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

• The understanding that employees are human.

In the first few months of the pandemic, many employers recognized that their underwriters, claims professionals and agents were more than just the functions of their jobs. As we all got to see each other working remotely, we learned about our co-workers' home lives. And many of our co-workers were pulling double duty right in front of us—trying to find ways to care for their children who were no longer able to go to class, or cope with a dog. We became more understanding of each other and showed up with a sense of humor when family interruptions occurred. We are all trying to continue to manage this gracefully.

If we return to the office in the future, I hope we can continue to see each other as complete individuals who have lives outside of work.

• The intentional creation of workplace connections.

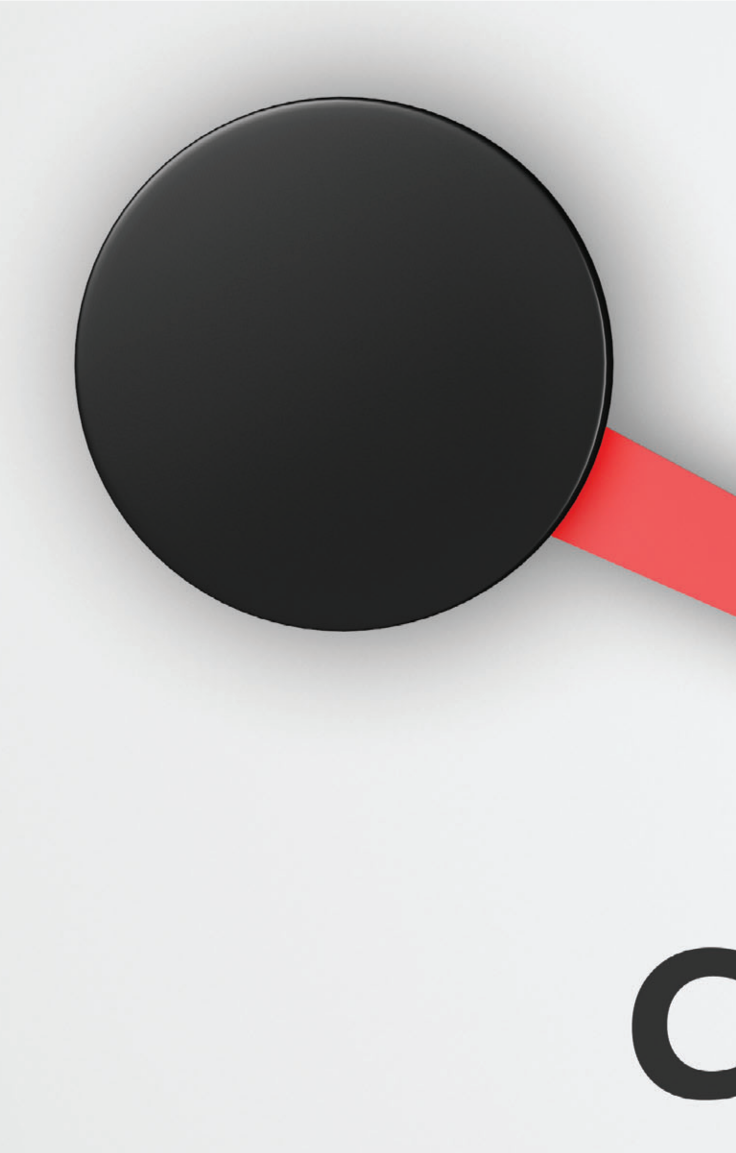
For those of us who started new roles in the midst of the pandemic, this point is of utmost importance. Before COVID-19 struck, we could stop by each other's desks or meet each other in the elevator—all instances that built connections between employees. The past year has taught us to forge those connections through video calls and chats instead. Developing these interpersonal skills will help insurance professionals work with teams. This leads to better collaboration for the entire company.

We should strive to keep these benefits in mind, even if we return to normal. There are likely other lessons we have learned that can benefit the insurance ecosystem as a whole. I'd love to hear what you have found that has worked well this year. BR

COVID-19 Forced Workers to Adapt to New Modes of Working

The unavoidable changes wrought by the pandemic meant many employees were pushed out of their comfort zone.

By **Tony Kuczinski**



The emotional and economic effects of the pandemic have led to wide-scale and severe disruption over the past 12 months, and the disruption likely will continue for some time. It may be years before we fully comprehend the far-reaching impact of the pandemic. But for leaders, especially in the insurance industry, I see an important lesson already emerging: the human ability to adapt.

Change is difficult in all aspects of life, both personally and professionally. We often have to coax ourselves into embracing change. Bestselling posters and refrigerator magnets are filled with colorful colloquialisms meant to shore up our resolve: "The only constant in life is change," "If you can't change your mind, you can't change anything" or "Life begins at the end of your comfort zone."

At work, there are also expressions to explain our resistance to change. Given the nature of the insurance business, the reluctance to jump into something new can be especially strong. I've often heard: "You can't turn an organization on a dime." For years we have been hiring consultants, reading books and attending seminars on change management so we can best guide our teams through the inevitable up and down cycles.

No matter what difficult experiences an individual leader has faced—mergers, acquisitions, 9/11, economic crises—nothing prepared managers for the multitude of significant changes forced by the pandemic.

As I reflect on the past year, one thing has struck me almost every single day: how the survival instinct kicked in the same way it does during an emergency.

From the beginning, when we contemplated the initial momentous shift to working virtually, people knew they had to act differently than they had in the past. An understanding permeated all discussions. There wasn't time for long debates. We couldn't afford our customary resistance to change.

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

I saw those employees who normally stayed quiet on the sidelines begin to take a new approach—they raised their hands to offer potential solutions. People who customarily required multiple meetings and long deliberations before coming to a decision were suddenly, easily making adjustments on the fly. Those who rarely ventured away from the tried and true stepped up and said, "I have this crazy idea."

In short, we were able to keep our businesses going with only a few wrinkles because our people rose to the occasion and found ways to work through the situation. We were able to conduct almost all aspects of the insurance and reinsurance processes—from sales to underwriting, to engineering and inspection, to claims handling and settlement—largely on a remote basis.

I suspect every leader had an experience similar to mine: watching with pride as their workforce adapted to levels no one would have expected.

Adaptation went beyond merely getting the work done, and sometimes led to professional growth. For example, colleagues who thought they lacked the requisite skills to be effective managers of remote teams and found they could lead groups of people based in different locations—and do a good job.

After some practice, those who disliked being on camera during virtual meetings realized they could successfully communicate and collaborate via video. The lesson isn't about embracing technology—it is about believing in our own abilities.

The pandemic forced us to stretch ourselves beyond what was comfortable to see new possibilities for our work, our organizations and our lives.

Whatever the next 12 months bring, and whatever the new normal looks like, that is the lesson that will carry us through. BR

Drones, Telematics and Sensors Help Insurers Manage Risks

Now more than ever, innovative risk management practices demonstrate the unique value that carriers and independent agents deliver to their customers.

By Dick Lavey

From the liabilities associated with the COVID-19 pandemic to cyberattacks and the use of robotics in the workplace, there is little doubt that business risks continue to evolve at a rapid pace. At the same time, traditional perils, such as extreme weather and auto exposures, remain prevalent and ever-increasing.

These realities have spurred successful carriers to leverage innovation to create a distinctive risk management experience. Across our industry, we are seeing the introduction of technology-enabled tools and services to help businesses minimize risk and maximize safety. For example, the use of drones, data analytics, telematics and water detection tools are becoming commonplace. This is only the beginning.

An increase in risk management innovation couldn't come at a better time, as loss pressures continue to mount. Take property losses, for example. According to Verisk/ISO, fire historically makes up 35% to 40% of loss costs and water damage comprises 10% to 15%. As we manage through the COVID-19 pandemic, these loss trends are essentially holding steady at their historic averages, and in some cases increasing. Couple those loss trends with an increase in industry catastrophe losses and it is becoming even more important to find new ways to mitigate losses.

The emergence of the internet of things (IoT) has been instrumental in this regard. IoT has enabled the industry to expand policyholder offerings to provide discounts for the use of tools that can help reduce claim severity related to freezing and water damage, benefiting residential and commercial customers. With this new capability, a contractor can install technology to detect water intrusion and stop an incident before it escalates, preventing massive losses. We've seen significant benefits from this new tool in our business.

And it goes well beyond just sensors. Carriers are making vast improvements in the area of employee

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safety, as well. For instance, companies are now completing ergonomic evaluations using artificial intelligence and wearables while evaluating the impact of exoskeletons to reduce ergonomic risk or to support an injured employee in returning to work.

When it comes to managing claims and assessing risk, drone technology and thermography continue to present new opportunities. While drones have been used for some time now to assess claims, their use offers a significant opportunity to improve the pre-loss and risk assessment processes. The benefits of thermography include the detection of heat-related problems in electrical equipment, as well as identification of mechanical issues. Studies have shown that for every dollar spent on a thermography survey, five dollars in cost avoidance is identified on the damage. Furthermore, by combining drone use with thermography, surfaces can be scanned to detect issues that aren't visible to the eye, enabling carriers to identify and highlight potential problems long before they become major losses.

Given the rapid pace of change in our industry, it is to risk managers' advantage to work closely with their independent agents to understand how carriers are investing in innovation, what new and evolving capabilities they believe are most critical in the market and the advancements in the area of risk management. Ultimately, engaging in frequent conversations regarding risk management innovation is the best way for risk managers and agents to understand emerging capabilities and other investments across the value chain. This insight will enable agents to partner with carriers that are committed to an exceptional customer experience focused on mitigating risk and delivering quality protection and services. BR

Protests, Riots Raise Questions of Civil Authority Coverage

For any given loss, coverage depends on the language of the particular policy provisions governing the claim at issue.

By Alycen A. Moss and Elliot Kerzner

Following the death of George Floyd in May 2020, protests and riots broke out in Minneapolis and spread to another 140 cities throughout the United States. The level of property damage inflicted during the ensuing unrest made it the costliest civil disorder in U.S. history, according to data compiled by Verisk Analytics' Property Claim Services unit. The National Guard was called in to at least 21 states and Washington, D.C.

For the first time, the Property Claims Services designated the civil unrest a multistate catastrophe. Business losses resulting from the civil unrest have well exceeded $1 billion.

In the wake of the riots, many cities issued orders restricting access to areas affected by vandalism and looting and/or imposed curfews in anticipation of further unrest. As a result, many businesses lost income and sought coverage under their insurance policies.

Many commercial property policies provide coverage for a loss incurred while access to a covered location is denied by an order of civil authority, but only for a "covered peril." Therefore, if the business interruption claim does not involve direct, physical loss or damage, it will not be covered.

Some policies provide a coverage extension if an action of a civil authority (i.e., police action or government order) prohibits access to a covered business's premise.

In such a situation, coverage may be provided under the civil authority provision if three things happen: a civil authority restricts or prohibits access to a nearby property not insured under the policy; the other property sustained direct physical loss or damage caused by a covered cause of loss; and the effect of such an order totally prohibits access to the insured location.

We are seeing claims where insureds are taking


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the position that orders and/or curfews issued during the riots and civil commotions prohibited access to their properties and caused business-income loss.

However, if the nearby property did not sustain direct physical loss caused by a covered cause of loss, there is no civil authority coverage. If the insured business remains open and access is merely inconvenient or diminished, there will be no coverage. Furthermore, if the order was designed to protect from the threat of future harm, it is not covered by most policies. Courts have explained that, in such cases, the direct physical loss is not the proximate cause of the civil authority orders.

For instance, in *Paradies Shops Inc. v. Hartford Fire Ins. Co.*, the court analyzed a civil authority claim arising out of a ground stop order issued after the events of Sept. 11. It held there was no coverage under the civil authority provision because the ground stop order was issued as a result of the threat of additional terrorist acts involving the nation's airlines, and not because of existing disasters at the World Trade Center, the Pentagon or Stonycreek Township, Pennsylvania. Thus, there was no coverage for the threat of future acts.

Similarly, a Georgia court held that a hurricane evacuation order did not trigger coverage under a policy's civil authority provision because it was issued due to the threat of future injury, not because of an already existing physical loss.

Of course, the existence and scope of coverage for any given loss will depend on the language of the particular policy provisions governing the claim at issue. So if you have a claim involving the civil authority provision, take a close look at the language to determine coverage implications. BR

Collateralized Loan Obligations on Rise in Life Insurance Asset Management as Quest for Yield Continues

Life insurers are increasingly turning to bundled corporate-loan investment vehicles, which due to their structures offer a higher return than similarly rated debt.

by Terrence Dopp

It's no secret that the past year has been a choppy one at best on the economic front.

As COVID-19 struck, the equities markets tumbled; then soared to reach record highs. The residential real estate market seemed impervious to pandemic shocks.

Yet joblessness is also up; and interest rates have held at historic lows—good for homebuyers but a drag on the investment portfolios of those with blocks of long-term risk. Life insurers, stymied by the low rates to back up the obligations on their books, have been on a multi-year hunt for yield.

Collateralized loan obligations, or CLOs, have become attractive to life and other insurers as they shift out of traditional investment-grade corporate holdings into alternative assets in the hopes of mixing higher returns with a degree of safety. For

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life insurers—those with large legacy books in particular—the securities offer a safer way to offset the declining yield from maturities and lower-yield new corporate debt.

In fact, in the three-year span ending in 2019, rated life insurers drove growth in CLO investments of more than 40% to $114 billion, according to a January Best's Special Report, *Insurers' CLO Holdings Continue to Grow, but Exposures Are Manageable.*

Key Points

Moment: Amid economic uncertainty caused by the pandemic, governments rushed to approve economic rescue plans that pushed rates down and may keep them there for the foreseeable future.

Product: Collateralized loan obligations, or CLOs, are bundles of securitized corporate loans that because of their structure and complexity offer more cash flow with a degree of safety.

What's Ahead: The threat of defaults or credit downgrades is manageable at this point in the industry and isn't at risk of oversaturation yet.

For life/health insurers, the share of CLOs in fixed-income portfolios rose to 4% of invested assets in 2019 from 2.7% in 2016—exposure levels AM Best categorizes as manageable.

"The question becomes what else is there in the market that is offering an attractive yield with a certainty of cash flow, at a given rating quality and capital charge," Jennifer Quisenberry, head of structured securities at New England Asset Management, said. "That is sort of the broad equation when you're looking across fixed income instruments. CLOs do tend to generate a greater spread all else equal."

Institutional investors, a class that includes insurance companies, hold about three-fourths of U.S. CLOs, the Board of Governors of the Federal Reserve System said in June. Across all lines, U.S. insurers held 32.9% of that total.

As the pandemic took root, economies shuttered and workers were furloughed or laid off.

The prospect of business-loan defaults spiking became a real concern. Governments worldwide rushed to fund large economic rescue packages and lowered rates even more to encourage lending.

Same Loan, Higher Yield

CLOs are basically corporate bank loans bundled together and sold in tranches. They typically offer yield above investing in straight corporate credits due to the complexity of the instruments, the fact that companies can refinance or call the debt and the varying credit ratings of the underlying loan.

While CLOs might not comprise a huge share of insurers' portfolios, the instruments can be complex and research is key.

Two of the securities can theoretically contain analogous underlying loans but differ in performance due mainly to their individual

> For insurers, CLOs are likely to play a crucial role in investment portfolios for the foreseeable future as rates remain low.
>
> **Jennifer Quisenberry**
> New England Asset Management

structures. AM Best Associate Director Jason Hopper said this is the type of management and research item life companies need to keep in mind when overseeing that 4% of their investments in the CLOs.

"From that aspect, that's not any outsized share," Hopper said. "The next question it boils down to is capital and surplus and it's not a widespread industry phenomenon that many companies have too significant of an exposure to capital."

In comparison to capital and surplus, fewer than 10% of rated life/annuity companies had a CLO exposure that was more than 50% of that measure, AM Best found. "Middle market" CLOs, which account for about 10% of the leveraged loan market, as a rule are composed of loans to companies with $500 million or less in revenues and $50 million or less in pretax earnings.

While comprising a small segment of the overall market, those tranches typically are subordinated to the higher rated ones to achieve an investment grade rating, the report found.

Safeguards, Risk

Insurers have been attracted by the structures, features and protections of CLOs for many reasons.

They have prohibitions on shorting securities. Use of derivatives is forbidden. The investment vehicles also are constrained from over-concentrating in any one industry or straying from strict indenture requirements, or covenants.

At the same time companies have been expanding their positions there also has been an influx of first-time investors in the asset class.

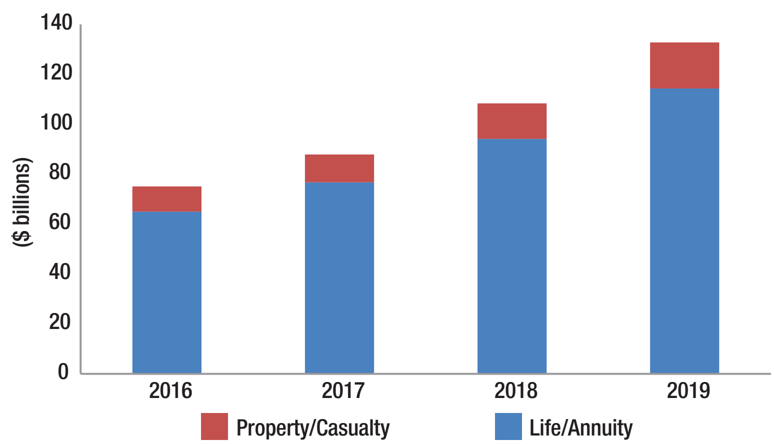
Alton Cogert, president and chief executive officer of Washington-based Strategic Asset Alliance, an investment adviser to insurers and risk-pool clients, said the class became more popular in the insurance world starting four to five years ago.

The rationale behind CLOs as an investment class is simple—higher yields than similarly rated corporate bonds. The reasons for the higher yields include the complexity of the investment—think of 100 corporate bank loans bundled into one package—and lost liquidity compared to a bond.

Also, there's a bigger role for CLO managers who have some flexibility in rejiggering loans in the portfolio if they are downgraded or refinanced.

"More return means more risk, and a lot of the investment managers who recommend this for their insurance clients and other clients are basically saying 'we're getting this extra spread

Rated US Insurers – CLO Holdings



Source: AM Best data and research

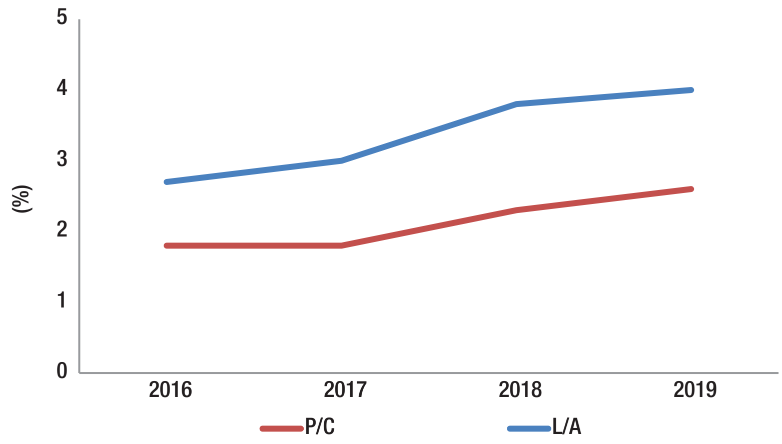
and do it at similar risk as corps,'" he said. "We don't say free lunch; the only free lunch in investing is diversification."

His firm's client book includes life/health and property/casualty insurers with anywhere from $100 million to $2 billion portfolios—the median is $200 million to $215 million, he said—and they tend to be conservative. The firm does at times recommend so-called risk assets, which they define as any non-investment grade bonds—and he said CLOs make up about zero to 10% of clients' accounts.

The credit quality of the U.S. insurers' exposures declined slightly from 2018, according to data from the National Association of Insurance Commissioners, though they invest primarily in senior, high-credit-quality tranches.

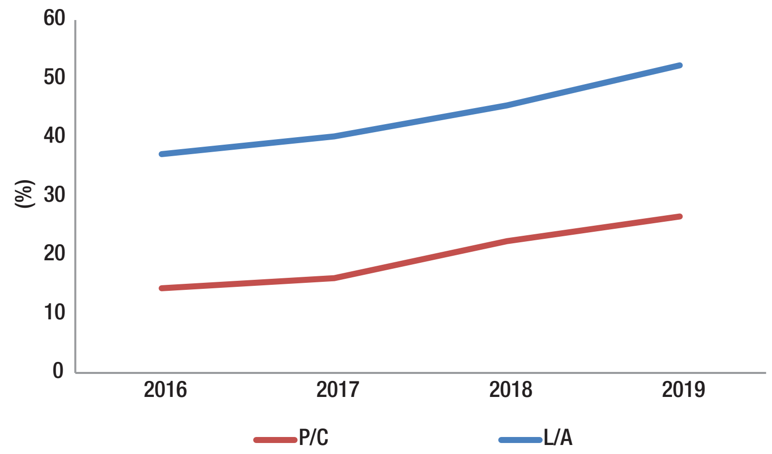
For the companies investing in CLOs, AM Best found the exposure "manageable" though it noted those with large exposures could face increased capital charges in the event of ratings downgrades.

Rated US Insurers – CLOs % of Invested Assets



Source: AM Best data and research

% of Rated US Insurers with CLO Holdings



Source: AM Best data and research

Two Crunches

Despite a somewhat higher risk than corporate debt, history has demonstrated CLOs to be resilient in the worst of times.

While the name is close to the collateralized debt obligations that were a factor in the 2008 financial crash, the two diverged greatly in their performance back then. One key difference lies in the underlying holdings: many CDOs at the time consisted of CDOs being repackaged into new CDOs, rather than the straight loan portfolios involved in a CLO.

Quisenberry, of NEAM, said that because CLOs are dynamic in terms of the provisions and protections inherent in the structure, they've done well during the pandemic and the so-called Great Recession more than a decade ago.

"When we look at the performance of these structures, it's really been outstanding in terms of the minimal degree of loss during the global financial crisis," she said.

Reasons for this include the ability of CLO managers to swap out of loans to avoid losses and the fact that underlying loan defaults and downgrades trigger haircuts in calculating the overcollateralization ratio, causing cash flow to be redirected to senior classes in certain cases, she said. Underlying loans can face some downgrades or default risk without a downgrade of more highly rated classes in the CLO, she said.

Hopper of AM Best said that dynamic nature is embedded in the nature of CLOs, which have undergone shifts and added new protections into the covenants since 2008. In part, that evolution from Version 1.0 to the current

“The general mentality is that today’s CLOs are a lot safer than they were 10 years ago.”

Jason Hopper
AM Best

Version 3.0 is integral to their rise as protections were enhanced.

“The general mentality is that today’s CLOs are a lot safer than they were 10 years ago,” Hopper said.

The Margins

Spread is the name of the game in CLOs. The money is derived from a spread of return relative to benchmark interest rates. Like any other instrument, the further down the ratings scale you drop the higher that spread is. The securities use a sequential “waterfall” payment structure meaning investors buy into the securities at different risk levels and those at the most senior levels are first in line to receive cash flow if that happens.

The aggregate yield is derived from a spread above a benchmark interest rate. While property/casualty insurers have traditionally participated in the highest parts of the ratings scale (i.e. single-A and above), life insurers have been more willing to step a bit further down though they’ve largely stuck to investment-grade securities, according to Quisenberry.

In the AA or AAA ratings classes, by midsummer of 2020 no CLOs had seen negative ratings actions and for A-rated ones that increased to about 1%. Based on a recent report from Deutsche Bank, no AA or AAA-class CLOs rated by S&P and Moody’s had seen negative ratings actions during all of 2020 and for A-rated securities it was 4%. At the BBB level, the figure was 13%.

“I tend to think of life insurance companies as being more focused on single-A and triple-B buyers (as well as higher rated classes) because they are reaching for yield,” she said. “Certainly, there have been negative rating actions at the triple-B part of the capital structure, but I would not consider a 13% downgrade percentage, with the potential for those ratings to recover, to be extreme considering the degree of economic upheaval caused by the pandemic.”

Another wrinkle in the security’s structure is that the underlying loans are callable by the borrowers—in plain English, after an upfront period where it’s forbidden, the loans can be refinanced at a lower rate and no longer fit into the original parameters.

CLOs are likely to play a crucial role in insurers’ portfolios for the foreseeable future as rates stay low, Quisenberry said.

“We’re seeing once again that transactions are able to withstand the stresses in front of them,” she said. “In the context of a broadly diversified portfolio they do certainly make some sense. They are useful for duration positioning and in certain rate environments.”

Cogert, who said he sees CLOs as a key component of a well-rounded portfolio, said the age-old, first rule of investing is at play.

He hasn’t yet seen the over-saturation that can prove risky.

“We’re back to diversification,” he said. “Too much of any one asset class can hurt you. For our clients, it’s anywhere from zero to 10% on the high end. It’s not a big holding at all.” BR

Early NCCI Data: 8.1% Decrease in Workers' Comp 2020 NPW

Workers' compensation premiums fell from $42 billion in 2019 to $38.6 billion in 2020 in a change that's attributed to COVID-19, according to NCCI.

by Timothy Darragh

Preliminary data from the National Council for Compensation Insurance estimated net premiums written for private workers' compensation carriers in 2020 fell 8.1% from 2019 to $38.6 billion.

NCCI Actuarial Consultant Brittni Moore and Director Vicky Mayen said 2020 was "a year like no other."

The shock of the COVID-19 pandemic drove widespread business closures, affecting an insurance field sensitive to employment and payroll, they said. The NCCI based its estimate on decreases in rates/loss costs approved by state insurance departments for 2020, it said.

The drop compares to 2019, when net premiums written reached $42 billion, it said.

A year earlier, total market net premiums written volume increased to $48.6 billion, the NCCI said.

Workers' comp business combined ratio rose one point, from 85 in 2019 to 86 in 2020, it said.

The full extent of the premium decline will not be known until well into 2021, it said, following the completion of audits.

A December Best's Market Segment Report *Catastrophes and COVID-19 Changing Business Trends for P/C Insurers* said the decline in direct premiums written was even higher, at 13%, at least through the third quarter of 2020.

Emerging risks for workers' comp include the lower premium base due to lower employment, AM Best said. An additional risk lies in state legislation regarding presumption clauses and their potential impact on claims and defense-containment costs.

Last summer, the National Association of Mutual Insurance Companies said presumptions that states have granted not just to first responders and health care workers, but to other workers deemed essential, could be costly.

The NCCI brief also said that compared with 2019, private employment in NCCI jurisdictions declined by 5.1% in the first three quarters of 2020. The NCCI estimates a decline of 3.7% to 5.1% in employment in the fourth quarter of 2020, compared with 2019. BR

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Parsyl CEO: The Last Mile of Vaccine Delivery Is Where Insurance Matters Most

A public-private partnership comprised of capital from a U.S. government agency, reinsurers, insurers and Lloyd's syndicates uses data and analytics to insure vaccine supply chains.

by Meg Green

Ben Hubbard, chief executive officer of Parsyl, said the insurtech has aligned with Lloyd's and governments to help insure sensitive vaccines reach their destinations. "We have a solution that allows shippers to monitor and insure their sensitive cargo as it's being stored and shipped around the world. To do that, we use smart sensors that ride with the cargo and monitor the quality conditions.

"Then we use software and data analytics to understand where problems are happening and insights that can help shippers reduce their risk. We use that data as well to provide really strong insurance coverage and tailored insurance packages to those specialty shipments."

Following is an edited transcript of Hubbard's interview with AM Best TV.

How did you get into insurance?

It wasn't a straight line for us. We started our company really with the sole mission of developing a better solution for understanding the quality conditions of vaccines as they're making their way to children in developing countries.

Those are obviously challenging supply chains. A vaccine makes its way thousands of miles across the world on its way to a child. When that child resides in a developing country in a remote setting, there's lots of opportunities for that supply chain to fail. Particularly when you're talking about cold chain vaccines, preserving that cold chain is really difficult.

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I struggled in my previous life with those supply chains and got frustrated with the lack of really good solutions. We set out to develop that.

In the process, we started working with insurers because the data we collect on those quality conditions is very valuable to insurers to understand risk, to provide better insurance solutions to their customers, to pay claims faster, to reduce cost. As our value to the insurance industry became more clear and we became smarter, we started to see how actually we can fit in that insurance ecosystem.

Today, we're a Lloyd's cover holder. We just launched an insurance syndicate at Lloyd's to focus on vaccine distribution. Of course, in all of this, COVID-19 happened, which we didn't anticipate when we started this company. Obviously, vaccines and the distribution of them is particularly relevant to this current time.

How sensitive are the COVID-19 vaccines?

It varies by the product. I think everyone's learning a lot about vaccine cold chains now. We have some products that require ultra-cold chain, like the Pfizer-BioNTech product. We have a Moderna product that needs to be kept frozen. Then we have some, what I would call, more traditional cold chain vaccines. Those are vaccines that need to be kept between two and eight degrees centigrade, Johnson & Johnson vaccine and AstraZeneca vaccine.

Those tend to be the easier ones. Easier because distributing something cold everywhere is not easy, but certainly easier than ultra-cold chain. Every vaccine will have a role to play in vanquishing this virus. Certainly, some will be easier to distribute through weaker supply chains in developing countries than, say, in the United States or in the U.K.

You were involved in the Lloyd's Lab. Can you tell us how that helped you make the jump over to insurance?

It was good timing for both of us. Our 10 weeks at the Lloyd's Lab was really critical in the evolution of our company because it allowed us to really understand our value proposition much more clearly. We got to work alongside a half a dozen underwriters, leading cargo market syndicates, to start to figure out how we can design solutions.

It was actually that time that convinced us to pursue becoming a cover holder, which is a really big decision for us as a company. It's not something we certainly anticipated when we started. We're so glad we did it. But we couldn't have done it without that experience at the Lloyd's Lab.

It's led to a really productive and fruitful partnership with Lloyd's. I think Lloyd's is such an incredible place that mixes the old with the new. We're really honored to be part of the new, but leveraging the 300 years of history and capability that they bring.

You also have a unique relationship. You have a public-private partnership to insure the COVID-19 vaccines. Can you tell us about that and how that works?

We created something called the Global Health Risk Facility (GHRF). We did it alongside a number of partners. We have 14 different global reinsurers and insurance companies that are part of it, nine Lloyd's syndicates, another five reinsurers. We did it in close cooperation with Ascot Group, with Axa XL, with McGill and Partners, a number of other partners, and Lloyd's first and foremost.

What it allows us to do is share risk on what are higher risk distributions of these cold-sensitive vaccines. We're talking about not just a cold chain vaccine, but it's sending those to lower- and middle-income countries that tend to have weaker supply chains.

Half the world today lives in countries that we would consider to have weak supply chains. It's just as important that those people get vaccinated. We really do need insurance solutions that cover the world, not just the rich world.

This is something we saw as a problem before the pandemic. Obviously, the pandemic made this challenge even greater. It was really important that the insurance industry stepped up with a solution.

This is something we've been working on actually just before the pandemic. It was actually four months before COVID shut us down that [Lloyd's CEO] John Neal and I started talking about this. We brought it to market in December.

We've created a special syndicate called Syndicate 1796. It's named after the year that the British physician Edward Jenner discovered what would become the smallpox vaccine, which interestingly is the only virus that we've completely vanquished from the planet. A small inspiration for us.

That syndicate is actually backed by capital

The Global Health Risk Facility "allows us to … actually insure these higher risk cold chain vaccine distributions within a country and all the way down to the last mile."

Ben Hubbard
Parsyl

from the U.S. government, an agency called the U.S. International Development Finance Corp. They have lent capital into this syndicate. It will be used to back policies that are underwritten through the GHRF.

The syndicate will share 50% of the risk. Lloyd's markets will share the other 50% of the risk. It's that risk-sharing combined with the data and the insight and the visibility that we can offer through Parsyl and other sensor solutions that really allows these higher risk distributions to become insurable.

How does the vaccine go from the manufacturer to the end-user or receiver?

We tend to think of global vaccine distribution, the high level, two key segments of the supply chain. There's the first segment, which is going from the manufacturer to the port of entry in a country. That tends to be through air cargo. These are fast-moving products. They're shipped by air. They land at an airport. They clear customs. Then usually the custody of that product transfers to another party.

It's at that point that actually the risk increases significantly because now it's going to be distributed through a public health system. You've got varying degrees of supply chain quality.

That's actually, interestingly, where insurance usually stops. Typically, those goods coming into the country are insured. There's a market for being able to do that. Once that custody transfers and they're distributed within the country, there's often a lack of insurance and a weaker supply chain.

You really want insurance where that risk increases. That's been difficult to secure for some of the reasons I've mentioned, visibility, perceived risk, counterparty risk, you name it. We solve some of those problems with this Global Health Risk Facility. What it allows us to do is actually insure these higher risk cold chain vaccine distributions within a country and all the way down to the last mile.

Supply chain logisticians, health care workers can have confidence, one, that they're getting the data they need to determine whether the vaccine is potent and should be given to the patient, two, they've got peace of mind that that investment is protected. There's no doubt. If it's not OK, they set that aside. They can be made whole.

That's really the exciting thing. Regardless of whether it's vaccines or seafood, anything that's perishable, using this kind of granular sensor information, we can design coverages and solutions much further down the supply chain than was ever possible because we just didn't have this data.

If the device goes off that the vaccines were not maintained at the level that they were supposed to be, that's when the insurance would be triggered?

Absolutely. There's two levels. One is the person who needs to do something is notified. The health care worker understands that something's out of spec. They're actually given guidance through their mobile phone as to what to do.

Then there's an insurance process where the right insured parties are notified. Then that sets a course of claims process. We have a couple different products. Some, this would happen automatically, parametrically. Some that follow more of a traditional adjustment process. In either case, that process is faster and it's cheaper because we have the data we need to be able to make a decision, in insurance, a claims decision. BR

Gulf Cooperation Council Region Recognizing Benefits of Captives

Reinsurance market conditions and regulatory changes in the region are creating a better environment for captives.

by David Pilla

Captive insurers are attracting greater interest in the Gulf Cooperation Council region, as regulation develops and counter-party risk concerns increase.

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

Recent market and regulatory changes show captives are becoming increasingly appealing to regional companies, said participants of an AM Best webinar *Captives in the GCC and Their Rating*. The GCC is comprised of Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates.

Captives are seen as an efficient way of managing risk worldwide, said Vasilis Katsipis, general manager, market development, AM Best. Due to tax and regulatory reasons, the use of captives was not as common a practice in the GCC as elsewhere, he said.

However, Katsipis said, reinsurance market conditions and regulatory changes are creating a better environment for captives, sparking increased interest from several operators in the market.

More captives worldwide are seeking ratings, in part because of concern over counter-party risk, said Katsipis. Non-rated captives represent higher credit risk, which results in capital charges in several regulatory regimes, he added.

In the GCC region, most countries do not have a tax on industry, unlike in many European and American economies. However, taxation is not the major reason for setting up a captive, said Ronny Vellekoop, senior executive officer, Marsh Captive Solutions.

Until 2017, there were only seven or eight captives in the GCC, he said. Beginning in 2018 the captive market expanded, in part, due to hardening market conditions and withdrawing of capacity overall, and captives are generally a response to the market, he said.

"We are seeing an increase in interest for setting up captives," said Vellekoop.

He said the GCC captives Marsh is managing are mainly traditional captives focused on property and liability lines.

Vellekoop said Marsh manages captives in 53 domiciles worldwide. He said the global broker

More captives worldwide are seeking ratings, in part because of concern over counter-party risk.

Vasilis Katsipis
AM Best

oversees more than 1,400 of the 6,135 captives worldwide, giving it a market share of 20.5%. Total captive premiums managed by Marsh total about $57 billion, he said.

Captives can take on more risk at times when insurance and reinsurance prices are higher, and can take on risks in areas where traditional commercial carriers have less appetite, such as cyber, medical and certain financial lines, said Vellekoop.

A captive manager acts somewhat like an asset or fund manager, allowing the parent to operate its own in-house insurer without incurring high staff and structural costs, Vellekoop said.

Country Risk

Country risk is one of the factors considered by AM Best in its analysis of insurance and reinsurance companies, said Ghislain Le Cam, director, analytics, AM Best. Country risk is important to AM Best although the rating agency doesn't issue sovereign ratings, he said.

AM Best assesses country risk by five tiers, from Tier 1 for countries with an environment that poses the least amount of risk, to Tier 5 for those that pose the most risk. Le Cam said GCC countries are rated either Tier 3 or 4, having moderate- to-high country risk.

AM Best's assessment of country risk encompasses a review of the regulatory environment, he said. Strong and transparent regulation aimed at protecting policyholders would be viewed favorably by AM Best in its assessment of an insurer's creditworthiness.

Changing Regulations

The Dubai International Financial Center recently updated its captive regulations to bring regulation more in line with international captive standards, a sign that Dubai is noticing the growing interest in captives in the region, said Vellekoop.

A key element in evaluating captives is their relationship with the parent company and their importance to the group, which among other things will influence their access to high-quality business, said Le Cam.

In June, AM Best revised its market segment outlook on the insurance markets of the Gulf Cooperation Council to Negative from Stable.

Key factors that led to the change in outlook include the economic downturn across the region stemming from lower oil prices and COVID-19 containment measures; the expectation of lower insurance demand following a delay in the rollout of mandatory health insurance in Bahrain and Oman; the postponement of Expo 2020 in Dubai; and the potential delay of government infrastructure projects.

The Best's Market Segment Report, *Market Segment Outlook: Gulf Cooperation Council*, also cites the adverse impact on capital buffers stemming from financial market volatility and potential decline in real estate valuations, as well as the expectation of increased delays in cash collection related to premium receivables from policyholders, as drivers for the outlook revision. BR

AM Best TV

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The COVID Transformation

March marks the first anniversary of the COVID-19 pandemic and how the world and the insurance industry are dealing with it. This special section reports on how insurers, in particular, have adapted. As one expert put it, no one is going back to the way things were before and many of the changes the industry has put in place are here to stay.

"The Pandemic Has Accelerated the Pace of Digital Transformation and Product Innovation in Insurance" reports on how the novel coronavirus forced insurers to rethink products and services, raised awareness about future risks and spurred change and innovation in the industry.

Some insurers are also examining their real estate footprint during the current work-from-home era. "Insurers Cozy Up to Remote Work and Reduced Office Space" examines what changes insurers are applying to the new virtual workplace reality.

"COVID-19 a Year Later: Life Insurers Forced Into Digital, Operations Growth in Survival Bid" looks at how increased digital operations, streamlined underwriting and workplace flexibility are all part of the solutions finding favor among the industry.

The Innovation Special Section is sponsored by Finys. Go to *www.bestreview.com* to listen to the Finys podcast or access it at *www.bestreview.com/multimedia*.

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A Changing Landscape: COVID-19 has changed the way people live and work and spurred some mammoth changes in insurance.

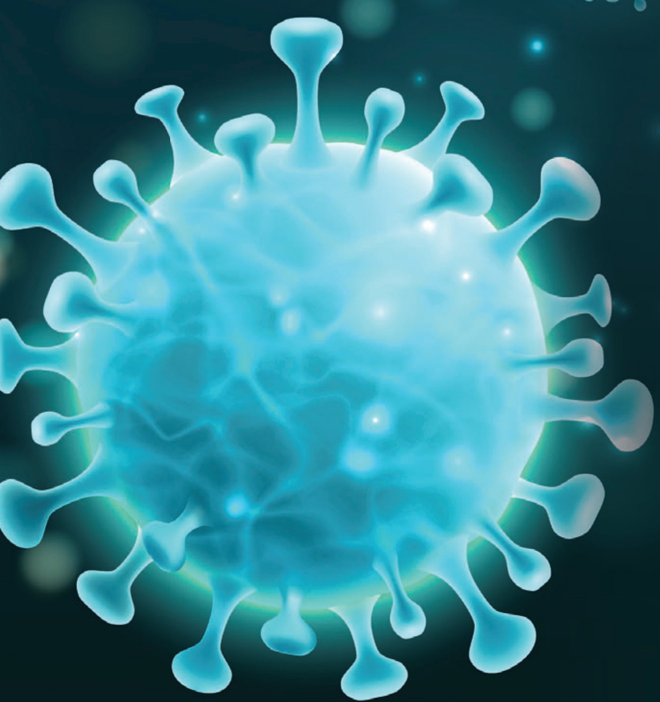
Eye on Innovation: Insurers are responding to the changing environment by accelerating their moves to digital technology and increasing their focus on product innovation and policy language changes in response to the evolving risk landscape.

Passing the Test: So far, insurers have successfully lived up to many of their promises and are delivering the innovations needed in what many now call the new normal.

The Pandemic Has Accelerated the Pace of Digital Transformation and Product Innovation in Insurance

Insurers were venturing on a digital journey and innovating products prior to COVID-19. But the pandemic forced many insurers to fast-track some of those transformations that are now likely to have a permanent home in the industry.

by Lori Chordas



Axa has long pursued digital transformation. For instance, in 2019, it launched a digital platform called Axa Affiliates that enables partners to integrate the company's insurance solutions within their websites or apps. That focus on innovation has been an asset in ensuring business continuity during COVID-19 and to serve customers in an unprecedented context.

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

"What we saw was insurers with defined risk appetites and those who knew their risks and had mitigation strategies in place before the event, generally fared the best."

Connor Brach
AM Best

During the height of the novel pandemic last spring, Axa leveraged digital approaches to shift its entire 160,000-member staff to remote working, connect with clients and employees in nearly three million weekly virtual calls and make 75,000 simultaneous remote connections to its servers.

"That's unprecedented," said Axa group chief information officer Giovanni D'Aniello.

While COVID-19 has changed the way we live and work, it's also become a catalyst for innovation and fast-tracked digital transformation in insurance.

Last year, Heng Swee Keat, Singapore's deputy prime minister and coordinating minister for economic policies and minister for finance, spoke of that shift at the 2020 Singapore International Reinsurance Conference RE-MIND virtual event: "If there is a silver lining, COVID-19 has raised awareness of future risks and provided greater impetus to close the protection gap and that the insurance industry can build on this impetus, to transform the industry by riding on two shifts—public-private partnerships and digital transformation."

Sure, insurance executives had been considering digital innovation long before the pandemic. But COVID forced insurers to rethink existing business and operating models, and amplified the speed in which they have had to make the paradigm shift to digital technology, said Connor Brach, a senior financial analyst at AM Best.

So far, he said, the industry has lived up to many of those promises. But he isn't surprised. While other sectors struggle to keep afloat in the uncharted waters of the pandemic, Brach said the insurance industry—as it has done many times before—has proven its resiliency.

One of the most significant transformation developments to come into focus over the past year is customer engagement, both in terms of sales and distribution along with claims, said Robert Hartwig, a clinical associate professor of finance and director of the Risk and Uncertainty Management Center at the University of South Carolina's Darla Moore School of Business. COVID-19 has reshaped consumer behavior and "simply accelerated an existing trend toward digitization of the customer experience—likely compressing two to three years of innovation and implementation into the span of just 12 to 18 months."

Also during that time, insurers have increasingly focused on migrating to the cloud, digitally enabling their sales forces and supply chain interactions and using data as a navigator to build technology systems and resilience into their operations, said Kenneth Saldanha, Accenture's global insurance lead.

Saldanha said the pandemic has also propelled the need for insurers to rethink their products and services and uncover ways to innovate simpler offerings, such as needs-based insurance, that infuse customer insights and leverage the potential of new technologies.

Saldanha doesn't expect the recent pace of innovation in the industry to slow down anytime soon—not even after the growing availability of COVID vaccines helps reduce uncertainty.

"I don't think anyone is expecting to go back to the way things were before, and many of the transformations we've seen over the past year are here to stay," he said. "Born out of adversity has been some acceleration of issues that are very good for the industry and its customers. This isn't crisis management time; rather it's a new sustained way that we do insurance."

Diving into Digital

According to a Deloitte survey, one of the discoveries to arise out of the pandemic has been shortcomings in some organizations' digital capabilities and transformation plans.

But sweeping changes ushered in by COVID-19, including the rapid transition to remote work arrangements and the need for insurers to shift large portions of their business toward an entirely digital environment, signaled the need to overcome those deficiencies and transition many nice-to-haves into necessities and created what Saldanha calls "a real step change" for the industry.

"One insurance CEO recently told me his company was forced to do five years' worth of technology innovation in just 12 months," he said. That's a big task during an unprecedented crisis that has challenged insurers' legacy systems and more traditional types of business models, Saldanha said.

Axa, largely due to the significant investments it's made in digital transformation over the years, has once again proven itself a digital leader in the industry by digitizing work processes, equipping staff with a fully portable digital work environment and developing a "solid and resilient" IT architecture during the pandemic, D'Aniello said.

Last year, the company also connected with customers in more than 500,000 teleconsultations—a feat for technology that, he said, "was still marginal a few years ago."

Insurance is a risk-oriented business and insurers are well aware that "whenever you make changes there is some risk associated with that," said Steven Chirico, a director at AM Best. "The pandemic has accelerated that mindset and forced insurers to say, 'Maybe we should be trying new things and utilize them on a regular basis. So far companies of all sizes, even smaller captives, haven't missed a beat."

While the pandemic has propelled the need to digitize quoting and submissions processes in commercial lines, insurers have also been busy integrating agents and brokers into their digital environments and, on the claims front, "accelerating existing trends related to seamless straight-through processing, particularly in personal auto where computing vision now outperforms human adjusters," AM Best's Brach said.

New demands created by COVID-19 have also shifted insurers' focus away from functions and operational changes and more onto intent, Saldanha noted. "Digital journeys have elevated the need to build those experiences in a way that builds trust.

"Things were already happening to digitally drive efficiencies in functions like underwriting, claims, service and billing," he said. "But what the past year changed was an acceptance that this has to be an experience of trust because there's still a difference between how customers experience human interaction versus machine interactions. We're now seeing a greater blending of the two."

Last year's rise of widespread remote workforces, along with more data and applications moving outside the traditional security perimeter, have placed an emphasis on cybersecurity—an area in which nearly two-thirds of companies plan to increase their spending, according to Deloitte.

Those and other recent changes beg the question: Have insurers so far lived up to the digital transformation stress test posed by COVID-19? Many insurance chief technology officers and chief operations officers think so but an Accenture survey revealed some chief human resources officers remain skeptical about the industry's response and preparedness to deal with the crisis and its ability to reconfigure technology needs.

Saldanha believes insurers have done a good job of elevating the level of customer data exchange needed to support their digital journeys. "Also, COVID has brought discontinuity to how technology is being viewed as a business

"Clearly the path forward is one that will be different; we won't return to where we were before. But we are headed in a new, improved and more effective innovative direction."

David Priebe
Guy Carpenter

enabler and amplified insurers' need to say, 'I can't build this all internally on my legacy systems so let's talk to providers about how we can tap into scaling in the cloud,'" he said.

The good news is that companies are willing to make those investments. Nearly 80% of enterprise decision-makers reported that COVID-19 has increased budgets for digital transformation, according to a 2020 Twilio survey.

New Risks, New Changes

Experts say another pronounced shift to come from the pandemic has been a changing risk landscape and a renewed emphasis on product innovation.

Over the past year, according to reports, there's been a rise of new and evolving coverages such as more parametric policies, which pay upon the occurrence of a triggering event, and customized personal lines usage-based insurance products.

"Risks are different than they were 15 years ago and we need to be better at providing coverage for those new risks, particularly digital and nonphysical type exposures," said Guy Carpenter Chairman David Priebe. "We are a ways off from providing that proper set of solutions, but COVID shined a spotlight on that need."

Renaud Guidée, Axa's group chief risk officer, said the insurance industry has reached a tipping point, with "a profound transformation of major risks that are increasingly complex and interconnected, but also global in scope, with a disruptive impact on our economies and societies.

"Some insurers like Axa already had dedicated models for the impact of pandemics on their mortality tables. But no one had anticipated total lockdowns and the quasi-shutdown of the world economy," he said. "What is true today with coronavirus may also happen tomorrow with a global cyberattack, or with the increasingly numerous and deep effects of climate change."

Crises such as pandemics bring many unknowns and are a reminder for companies to expect the unexpected, AM Best's Chirico said. "Who would have thought things like business interruption policy language and policy loss in that coverage could be construed as a virus—something companies took for granted before COVID?"

That's a significant change for the industry, Hartwig said.

"Every crisis provides insurers with new perspectives and a refreshed understanding of risk," he said. In the case of COVID-19, one of the greatest risks insurers encountered were massive losses from business interruption claims, which early in the pandemic, he noted, were "potentially solvency threatening" and measured in tens or even hundreds of billions of dollars.

"That said, there is already well underway a universal tightening of policy language related to communicable disease risks and business interruption coverage," Hartwig said.

"The additional clarity on the scope coverage for pandemic-related losses—with very little coverage available pre-COVID—creates opportunities for insurers to meet what will likely be very high demand for specialized pandemic-related policies to cover property, business interruption and liability-related risks," he said. "Insurers are already working to bring these new products and coverages to market."

AM Best's Brach expects product innovation, along with a renewed emphasis on enterprise risk management, to remain big priorities for insurers even after the pandemic. "ERM isn't just a document you draw up and place on the shelf," he said. "The pandemic is affecting nearly every aspect of insurers' operations and has presented a real-life stress test of their ERM programs, as disaster recovery and continuity planning came to the fore. What we saw was insurers with defined risk appetites and those who knew their risks and had mitigation strategies in place before the event, generally fared the best."

Guy Carpenter's Priebe hopes one of the few silver linings to arise out of the pandemic will be greater consumer awareness about the need for insurance products.

"But I fear that if people aren't getting coverage for this event it may end up making them more cynical and leery of insurance. That's why it's important—now more than ever—that we are very clear about what is covered, what isn't and make sure there are no surprises for consumers," he said.

The Road Ahead

March marks the one-year anniversary of the World Health Organization declaring COVID-19 a pandemic, and companies are anxiously looking ahead to a post-COVID world.

Priebe expects that world to be filled with new risks, emerging technologies, some coverage issues that are yet to be decided and continued transformation around public-private partnerships created to address systemic risk posed by the pandemic and future events.

"The industry has already been taking steps to address those changes but the speed of change is now accelerating and from what I've seen, people are ready to embrace that speed of change and quickly adopt new technologies that deliver greater efficiency and customer experience," he said. "While we're not through the end of the tunnel yet, at least we see the light at the end and so far have managed through it extremely well."

Many company executives expect that over the next five years COVID-19 will fundamentally change the way they do business, and 85% anticipate it will have a lasting impact on their customers' needs and wants, according to a September 2020 Six Paths Consulting study.

Are companies ready? Only 21% of respondents believe they have the expertise, resources and commitment to successfully pursue new growth, and two-thirds expect the pandemic will be the most challenging moment in their executive careers.

But University of South Carolina's Hartwig is confident those in the insurance industry are up to the challenge and will continue making what he calls "accelerated evolutions." He said that's different from "transformations" because insurers are still in the midst of experimenting with new and different operating models.

Hartwig expects some of those models to be proven successful. Others will not. "Insurance is a highly competitive business, so only those evolutionary strategies that are successful will come to define how the industry is ultimately transformed," he said.

While Hartwig said the first two decades of the 21st century were quite tumultuous, he anticipates the coming years could also bring more unprecedented challenges. "However, what COVID-19 demonstrated unequivocally for the first time is that insurers can rapidly harness and adapt technology in ways that assure not only their future viability but an ability to grow profitability amid a rapidly shifting landscape of risk."

As Priebe looks to the future, he's excited about what lies ahead and expects those in the industry to emerge from the pandemic "far better as individuals," he said.

"Clearly the path forward is one that will be different; we won't return to where we were before," he said. "But we are headed in a new, improved and more effective innovative direction." BR

The Migration Habits of Data

Mutual of Omaha once sponsored a program called, *Wild Kingdom*. The program made its host, Marlin Perkins, famous. We marveled at the fact that the parents of a man who made his living studying wildlife named him after a fish. Then we wondered if, had Marlin lived in the 21st century, his fascination with animals would apply to technology. If so, he might follow the migration habits of data.

He'd likely find those migration habits in core system replacement projects fascinating. Those projects are large, time-consuming, and touch all aspects of the enterprise. And while they move companies into the future, historical data is crucial to their success.

The Nature of the Beast

Since they consume data, insurance companies might be called datavores. Reliable data is crucial to evaluating risks and writing them profitably — to managing and adjudicating claims while minimizing losses. Given the size and complexity of replacing legacy systems and migrating data to new ones, a few questions must be answered:

- Will legacy systems remain available for reference, rather than converting data from them?
- What data will need to be converted? (We'll consider policy only here.)
- What historical data will be needed to process renewals?
- Will a data warehouse be used and, if so, will converting data for a new system be necessary?

Stalking the Beast

There are several conversion approaches to consider:

- **Manual.** While data fields can be populated for things like Name, Address, and Policy Number, other fields may have to be keyed at renewal. Consider policy complexity, as well as whether staff members will be available to enter the data or if you'll need outside resources.
- **Renewal.** Policies expire in the legacy system and renew in the new one over 12 months. Historical data isn't captured in the new system — just renewals and corresponding billing information. Extensive data-mapping and validation are necessary to ensure routine policies renew automatically and exceptions are flagged for intervention. The legacy system will need to be maintained throughout the migration and beyond, depending on the company's needs.
- **Point-in-Time.** All data automatically converts and migrates from the legacy system to its replacement for a predetermined period. This approach requires pre-migration mapping and validation because errors in the data will be applied against the entire book of business. But little to no support is required after mapping and validation are complete.

The decision between rollover (all departments working with two systems) vs. point-in-time should consider who will do the work. Rollover entails more work, with implications for overall business operations and more planning to optimize user experiences for agents, policyholders, and third-parties. Point-in-time shifts the effort to the data-migration team only.

Two other factors will help determine the appropriate approach:

1. If data quality is poor, point-in-time won't work because the time and cost to manually scrub problematic records and to electronically scrub exceptions will be prohibitive.
2. If the policy book is too large, point-in-time won't work because the downtime needed to complete the process will be prohibitive.

Taking Down the Beast

As you prepare to bag the big one, you'll need people to perform these steps:

- Data needs to be extracted reliably and formatted appropriately. The people supporting this effort need to know the source system data and be able to extract it. If you rely on your legacy system vendor for data expertise, make sure they're able or willing to support you.
- Historical data needs to be scrubbed and normalized. We run more than 500 validations on our customers' data to start. If that gets 80 percent of the corrections, we scrub the remaining 20 percent. If we catch 80 percent of that, we do it again. Then considering two things:
  1. How many times does scrubbing need to occur before the returns diminish unacceptably?
  2. Once scrubbing is finished, how will remaining data errors be handled?
- Scrubbed data needs to be formatted to comply with the the new system. Extensive mapping and decisions about data that doesn't easily map into the new system will be required.

The insurance industry doesn't constitute a wild kingdom. But we'll be happy to help you tame the Data Beast.

Insurers Cozy Up to Remote Work and Reduced Office Space

COVID-19 forced many insurers almost overnight to shift employees into work-from-home arrangements and necessitated some to consider closing unused office space in what is the dawn of the new virtual workplace reality.

by Lori Chordas

At the beginning of 2020, roughly 20% of Liberty Mutual's staff had been working remotely several days a week. But after COVID-19 began to hard hit the U.S. in mid-March, causing business and school lockdowns, the insurer was suddenly forced to temporarily dim the lights in many office buildings and transition nearly its entire workforce into virtual work arrangements.

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Liberty Mutual isn't alone. Last spring, companies like Aetna, Farmers Insurance and others moved employees—some for the first time—to remote work arrangements. Some opted to make that temporary shift into a more permanent fixture. This shift in work arrangements also has prompted some insurers to examine the possibility of shedding office space.

During the height of the pandemic, nearly 75% of chief financial officers said they expected some segments of their workforces to permanently work from home even after COVID-19 is gone, according to a March 2020 Gartner survey. And for more than half of larger organizations across various industries, reducing the size of their office space because of the rise of remote workforces could soon become a reality, Cisco Systems Inc. reports.

Rapid Shift

Just weeks into the pandemic, Nationwide Insurance successfully pivoted to a work-from-home environment for 98% of its employees.

It also decided to accelerate a multiyear plan already in progress to close satellite offices and permanently transition to a hybrid operating model that comprises primarily working from the office in four main corporate campuses and working from home elsewhere.

Spokesperson Ryan Ankrom said Nationwide completed its exit of most buildings outside of the four designated campuses last November and moved associates in Gainesville, Florida; Raleigh, North Carolina; Harleysville, Pennsylvania; Richmond, Virginia; and Wausau, Wisconsin to permanent remote-working status.

Over the past year, corporate juggernauts like Facebook, Twitter and Microsoft also have announced that they will be allowing many employees to work remotely even after the pandemic—creating the potential need to turn what was once bustling office spaces into prime real estate for sale.

Morgan Stanley projects over the next two to five years, vacancy rates in office buildings in San Francisco could reach 7% to 9% and 10% to 12% in New York.

In another metropolis, Portland, Oregon, Standard Insurance Company's nearly 3,000 employees transitioned from working in the city as well as in dozens of offices around the U.S. to largely working from home since mid-March 2020. Last August, the company made the decision to temporarily relocate a small number of essential employees working from two downtown Portland office buildings to several suburban buildings to ensure their safety in light of continuing safety concerns and property damage occurring in downtown Portland, said spokesman Bob Speltz.

Downsizing Plans

The ongoing pandemic has many in the C-suite re-examining real estate needs and deciding whether to reduce brick-and-mortar space as a consequence of what many call the "new remote reality."

In a survey conducted by KPMG last August, 68% of large company CEOs said they plan to eventually downsize their office space.

Steven Chirico, a director at AM Best, said while he hasn't yet heard of many insurers reducing their physical footprint as a result of the pandemic, he expects that could change during upcoming lease renegotiations—with some opting to sell unused office space and others looking to sublet space they no longer need.

Long before COVID-19 grabbed headlines, the number of telecommuting Americans was climbing steadily, with a 159% rise between 2005 and 2017, according to a FlexJobs and Global Workplace Analytics report.

Now, in the midst of the pandemic, the once nice-to-have benefit has suddenly shifted into a must-have for many organizations. It also has opened the eyes of company executives to the advantages that come from virtual work arrangements, including increased productivity, greater collaboration, lower overhead costs and a better work-life balance for their staffs.

State Farm is finding increased "flexibility" from virtual work arrangements and last year announced employees in operations centers in Birmingham, Alabama; Murfreesboro, Tennessee; Austin, Texas and several other locations will "no longer physically be reporting" to those centers even after the pandemic, said spokesperson Tammi Estes.

For employees in its Bloomington, Illinois headquarters, along with its Atlanta, Dallas and Phoenix facilities, Estes said State Farm plans to return more of them to the office later this year in what she called "a careful and thoughtful" phased approach.

Employees across all sectors are embracing the recent shift to work-from-home arrangements, welcoming—even if just temporarily—the opportunity to say goodbye to long daily commutes and being tethered to their desks for countless hours in exchange for Zoom meetings and the flexibility that comes with remote working.

According to McKinsey research, 80% of employees enjoy working remotely, and 41% report being more productive.

Insurance employers, too, are recognizing the value, with 82% of insurance chief human resources officers surveyed by Accenture in July 2020 finding high workforce productivity from virtual work arrangements, and 88% citing workforce engagement was high during the pandemic.

Along with overhead cost savings from rent, utilities and other monthly expenses that companies can gain from downsizing their physical footprint, AM Best's Chirico said virtual work arrangements also are creating new opportunities for insurers to deepen their talent pool, especially across different geographies.

In the aftermath of shelter-in-place mandates issued during the early days of the pandemic, Allianz Global Corporate and Specialty "literally overnight" transitioned 90% of its workforce into a work-from-home environment, said head of distribution Rani Christie.

One year later, many of its employees are still working remotely, "and even with the few offices that we have open, it's still only 10% to 15% capacity," he said.

Now, as companies slowly start to "resurface from the deep end of what is COVID," Christie said he expects many to find continued success in the "new normal," despite several drawbacks that can arise from that environment, including employees feeling isolated from their peers, at-home distractions and space issues.

However, when companies weigh the pros and cons, he said, "now somewhere in between, we have the opportunity to strike the right balance, and that balance could be beneficial on an individual level, who maybe prefers to work from home or maybe prefers to work from the office."

Along with overhead cost savings from rent, utilities and other monthly expenses that companies can gain from downsizing their physical footprint, virtual work arrangements also are creating new opportunities for insurers to deepen their talent pool, especially across different geographies.

Steven Chirico
AM Best

Returning to a New Reality

In the coming weeks, Liberty Mutual plans to invite employees in the U.S. and Canada to return to their offices in a "phased approach, based on many factors," said spokesperson Glenn Greenberg.

But even after the company begins its reopening strategy after June 1, "voluntary work from home will remain an option for those who choose it," he said.

When staff begins to physically return to the workplace, Greenberg expects the experience to look much different from what it was pre-COVID. "We will be more flexible to accommodate employees with personal circumstances that may have been impacted by the pandemic," he said. "Now on a much larger scale, this experience has affirmed our ability to successfully operate virtually as a global company." BR

COVID-19 a Year Later: Life Insurers Forced Into Digital, Operations Growth in Survival Bid

An endless series of run-on days and anxiety for the life insurance industry has stretched into the first year of living in a COVID-19 world. An industry known for gaming out crisis responses now finds itself pondering which parts of the pandemic response will become permanent and where it can find growth.

by Terrence Dopp

An interesting thing happened in the past year. Not just the COVID-19 pandemic itself, but the conversation around life insurance changed from the doom and gloom of the early pandemic days into a conversation about growth, investments and the future.

Insurers had to figure out how to survive, prosper and roll out years' worth of carefully laid digital plans in an on-the-spot shift in the way they transact daily business.

"If this had happened 10 years ago, I'm not sure how the industry would have fared," said Neil

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Sprackling, head of U.S. life and health at Swiss Re. "With the benefit of technology we've actually done a pretty decent job. I'm not only talking about Swiss Re specifically, I think we've been able to demonstrate quite credibly that we can continue to keep the doors open and new business coming in."

Sprackling says the ride may have been bumpy in the early days, but the industry never saw the potential drop off that was a distinct fear when the pandemic began.

Traditionally, life insurance is a product sold face-to-face but the novel coronavirus flipped that practice on its head.

During the spring and into the summer, various state orders expressly prohibited direct contact with people outside a given household, and people have remained leery ever since. In 2011, two in three life insurance consumers told industry group

Key Points

Problem: The discovery of the novel coronavirus and its growth into a pandemic left life insurers scrambling to figure out how they could continue to keep the doors open at a time when doors were closing across the economic world.

Solutions: Increased digital operations, streamlined underwriting and workplace flexibility are all part of the solutions finding favor among the industry.

Changes: A year on, life insurers find the immediate anxiety has fully gone away, but there has been talk of growth and what comes next for the industry.

“An event like a pandemic triggers an awareness of the need for life insurance and the security it provides. It makes people aware of the fragility of life, which is not usually top of mind for most people.”

Alison Salka
Limra

Limra they preferred face-to-face sales, while in 2020 the number of people favoring the in-person route dropped to 41%.

The group also found a growing preference for accelerated underwriting and more than half, 55%, cited not seeing a doctor as the reason for that preference. Limra said early in the pandemic its surveys found people concerned about day-to-day problems such as getting toilet paper or protecting loved ones. Its surveys also increasingly demonstrated people’s needs for life insurance and their plans to go ahead and buy it.

“An event like a pandemic triggers an awareness of the need for life insurance and the security it provides. It makes people aware of the fragility of life, which is not usually top of mind for most people,” Alison Salka, senior vice president and director, Limra Research, said. “You’ve got this increased interest but, at the same time, you don’t have the ability to meet with an adviser or an agent the way you did before.”

Increased web traffic and bolstered direct-to-consumer marketing were both ways the industry made strides during the pandemic, she said.

New Interest

In early 2021, the talk of girding against pandemic-induced shock has to some extent been replaced with a different conversation: How to position oneself to capture a larger share of the new market?

Couple the changing face of the market with a renewed focus on the importance of purchasing and maintaining life insurance policies and there is a real growth opportunity for the industry, said Chris Blunt, CEO of Fidelity & Guaranty Life. He cited the company’s inaugural Risk Tolerance Tracker, which surveyed nearly 1,500 American investors, and found 52% of millennials and 46% of Gen Xers were willing to explore new financial products post-COVID.

“As the interest in purchasing life insurance increased, we saw customers quickly embrace new industry trends and changes that we’re starting to see become more mainstream such as exam-free and accelerated underwriting that make it easier to get a policy quickly without the need for medical tests, etc.,” Blunt said in an email. “We’ve also seen significant growth in our IUL [indexed universal life] business where at F&G we focus on the middle market.”

F&G found in the course of its own research that 60% of Americans are worried about retirement income, yet only 15% own annuities. That, Blunt said, provides an opportunity for growth brought on by the pandemic focusing attention on the need for planning.

The company also upgraded its digital resources for agents, and plans to continue those investments to help them meet business goals, he said. At the same time, he said the company has been redesigning its Des Moines headquarters to accommodate both growth and the new reality of workplace flexibility.

In the new environment, online shopping for life insurance is growing, while the ultimate route to a policy can change. Consumers have shown a willingness to conduct an initial round of research online, then decide whether to purchase it online or in person. When looking at the impact the pandemic had on life insurance from an industrywide perspective, a person can choose many angles from which to come at it.

First there were the operational questions.

Companies had to figure out how they would keep things going when more than nine-tenths of their workers were homebound and time-worn methods of doing business were no longer possible. Zoom calls became the norm, online presence got a huge boost and they made steps toward electronic contracts to match the accelerated underwriting.

Then there were market forces.

Although volatile, equity markets never saw the bottoming out many had feared. But interest rates look to be holding at the historical lows that have crimped balance sheets for the past decade. From the company perspective, this altered which products were profitable and led to shifts such as the movement away from traditional income annuities to variable products.

And third, there was also a shift in consumer demand.

Consumers wanted life and annuity products, so according to Limra research the sales of term life products were up as consumers looked to balance cost, protection and the speed of obtaining new policies. On the annuity side of the coin, during the first nine months of the year, registered index-linked annuities posted standout sales growth compared to more traditional annuity products. (Full year 2020 data isn't available yet.)

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Chris Blunt
Fidelity & Guaranty Life

It's the Underwriting

Sprackling of Swiss Re points to underwriting changes as the most significant in terms of the way in which the industry conducts business. It's not about cutting corners in the name of survival. Rather, the industry moved toward a way of obtaining the same information in a streamlined way that provides a cost-and-ease benefit to insurers and their customers.

"If you go back to exactly one year ago, you would find most life carriers and reinsurers talking about the need to digitize that business, automate it, and create a new experience for the end consumer," Sprackling said. "Then COVID came along and you had to hit the fast-forward button because it became almost a necessity to work that way."

Prior to COVID, eight in 10 life insurers were moving toward those newer underwriting procedures. In many cases, they were either still in the rollout phase or confined to policies with a smaller death benefit.

"When it comes to accelerated underwriting, we're seeing carriers increase how much they are willing to underwrite this way," Limra's Salka said.

"If you go back to exactly one year ago, you would find most life carriers and reinsurers talking about the need to digitize that business, automate it, and create a new experience for the end consumer. Then COVID comes along and you had to hit the fast-forward button because it became almost a necessity to work that way."

Neil Sprackling
Swiss Re

"This type of underwriting grew more quickly than it otherwise would have. I don't think this is likely to change after the pandemic."

Massachusetts Mutual Life Insurance Co., for example, raised the threshold to $1 million for policies written without traditional health exams. Companies had chosen the smaller thresholds with which to begin the new underwriting procedures such as accessing medical records rather than sending paramedical personnel to customers' homes.

"Usually people who are doing well financially or work with a financial planner already are aware of how to obtain life insurance," Salka said. "But you do have an underserved group in the middle of the market or at lower income levels who often don't work with advisers. The health crisis made them think about it and this may spur them to take action."

The Regulatory Angle

An increase in business is good, however insurance in the U.S. is governed by a complex web of state-based regulators operating under an old model that in many cases just doesn't move as quickly as businesses do. Also of note are the regulatory changes state insurance commissions made to facilitate this new business.

Delaware and Florida, among others, relaxed their standards on pen-and-paper signatures on insurance contracts and states as a rule moved to make electronic documents at least acceptable during the height of the pandemic. In doing so, an industry that operated decades behind others such as banking and real estate caught up in quick order.

Most states also eased other regulations such as lengthening grace periods, stretching out payment terms and dates, and policy nonrenewal cancellations in a series of emergency orders put in place to cope with COVID-19. "In implementing these temporary accommodations, companies and regulators alike have learned that they protect consumers very well and many should be made permanent to better serve consumers' needs," said Whit Cornman, an American Council of Life Insurers spokesperson. "Temporary accommodations we think should be permanent include easing 'wet signature' restrictions, permitting electronic delivery of certain documents and utilizing remote on-line notarizations."

Blunt, of F&G, said he sees the digital transformation as the single biggest change prompted by COVID-19 in the past year. He also sees those tweaks as the most likely to stick around from both the industry's operational standpoint and that of the consumers who experience that in most other areas of their lives.

Companies stepped up their online marketing and beefed up electronic distribution channels to get policies in the hands of consumers.

"While some clients may choose to go back to pre-pandemic ways of doing business, we expect many digital innovations to stick around," he said. "Exam-free underwriting is just one example of a COVID-driven change to the customer experience that is vastly more convenient with a simplified process that makes it easy for both the consumer and the agent." BR

CAPITAL CITY: Sampo Oyj, the 18th largest European non-life insurer, is headquartered in Helsinki, Finland.

Activist Investor Urges Finland's Sampo to Dump Nordea Bank

Sampo said it sold 162 million shares of Nordea Bank to institutional investors last November for gross proceeds of €1.17 billion as part of the Finnish insurer's strategy to focus on property/casualty insurance.

by David Pilla

Activist investor Elliott Advisors (UK) Ltd. said Finnish insurer Sampo Oyj needs to further simplify its portfolio by getting rid of its remaining stake in Nordea Bank and clarify its mission as a pure-play property/casualty company.

To simplify its portfolio, Sampo should announce it plans to become a pure-play insurer by the fourth quarter of 2021, said Elliott in a statement. Sampo's Nordea stake is seen as a significant distraction and a sustained drag on valuation for Sampo, the investor said. The investor said it published a presentation outlining "a clear pathway" to transform Sampo into a pure-play insurer and create more than €8 billion ($9.63 billion) of value.

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

The Nordic insurance group is made up of the parent company Sampo plc and its subsidiaries If P&C, Mandatum Life, Hastings and Topdanmark. The group of companies have insurance operations in Finland, Sweden, Norway, Denmark, Estonia, Lithuania, Latvia and the U.K.

A survey of investors commissioned by Elliott show a "vast" majority of respondents indicated they would like to see a full exit from the Nordea stake within the next 12 months, Elliott said.

"Sampo is positioned to satisfy investor demands by distributing half of Sampo's Nordea shares directly to shareholders—an act that over two-thirds of investors surveyed are supportive of—in Q2 2021 and selling the remainder to maintain a healthy balance sheet," Elliott said.

Sampo declined to comment, a spokesperson said in an email.

In November, Sampo said it sold 162 million shares of Nordea Bank to institutional investors for gross proceeds of €1.17 billion as part of the Finnish insurer's strategy to focus on property/casualty insurance. After the transaction, Sampo said at the time it holds 642.9 million Nordea shares, or 15.9% of all shares and voting rights in Nordea.

At that time, Elliott said it believes Sampo's management team "has built the best underwriter in the most attractive P/C insurance market in Europe," an achievement Elliott said reflects the track record of Sampo's current chief executive officer and chief financial officer. Elliott said both executives led If P&C for the past two decades.

Torbjörn Magnusson is Sampo's president and CEO and Knut Arne Alsaker is CFO.

Elliott said while Sampo's November move was a positive first step toward making the structural simplifications necessary to re-establish the company's reputation with investors, Sampo's

Best's Rankings

Largest 30 European Non-Life Insurers – Gross Written Premium and Profit After Tax, 2018-2019

(EUR millions)

Ranking				Gross Written Premium			Profit After Tax	
2019	2018	Company Name	Domicile	2019	2018	Change (%)	2019	2018
1	1	Allianz	Germany	57,210	53,636	6.7	8,302	7,703
2	3	AXA	France	52,422	38,599	35.8	4,181	-373
3	2	Lloyd's	UK	42,059	39,451	6.6	2,966	-1,112
4	4	Chubb	Switzerland	33,694	31,210	8.0	3,977	3,464
5	5	Zurich Insurance Group	Switzerland	30,525	29,293	4.2	3,915	3,477
6	6	HDI V.a.G.	Germany	27,155	23,226	16.9	1,659	1,325
7	7	Assicurazioni Generali	Italy	21,575	20,649	4.5	2,939	2,498
8	8	Achmea	Netherlands	18,686	18,332	1.9	481	315
9	9	MAPFRE	Spain	17,559	17,061	2.9	955	878
10	10	Société de Groupe d'Assurance Mutuelle Covéa	France	12,906	12,432	3.8	883	928
11	11	Aviva	UK	12,778	11,681	9.4	3,119	1,873
12	14	R+V Versicherung	Germany	9,065	8,235	10.1	647	351
13	13	RSA Insurance Group	UK	8,740	8,292	5.4	449	413
14	15	Unipol Gruppo	Italy	8,451	8,161	3.6	1,087	628
15	12	ERGO Versicherungsgruppe	Germany	8,412	8,434	-0.3	253	148
16	16	Groupama Assurances Mutuelles	France	7,404	7,388	0.2	346	450
17	17	Vienna Insurance Group	Austria	6,757	6,087	11.0	413	368
18	19	Sampo	Finland	5,947	5,737	3.7	1,237	1,778
19	21	Credit Agricole Assurances	France	5,628	5,272	6.8	1,522	1,341
20	20	HUK-COBURG Haftpflicht-Unterstützungs	Germany	5,455	5,304	2.9	413	371
21	22	Mutua Madrilena Automovilista	Spain	5,113	4,936	3.6	480	439
22	18	AIG Europe	Luxembourg	4,756	6,067	-21.6	31	31
23	23	MACIF	France	4,304	4,174	3.1	171	207
24	25	Helvetia Holding	Switzerland	4,300	3,906	10.1	495	383
25	24	ageas	Belgium	4,219	4,067	3.7	1,178	997
26	26	Groupe des Assurances du Crédit Mutuel	France	3,776	3,578	5.5	886	855
27	27	Direct Line Insurance Group	UK	3,752	3,567	5.2	492	526
28	28	Powszechny Zaklad Ubezpieczen	Poland	3,639	3,519	3.4	1,218	1,250
29	29	Grupo Catalana Occidente	Spain	3,632	3,476	4.5	425	386
30	30	Società Reale Mutua di Assicurazioni	Italy	3,281	3,197	2.6	152	148

Notes: All the insurers included in this ranking have parent companies domiciled in Europe (with the exception of AIG Europe, whose data reflects only the group's Luxembourg-domiciled entity). The ranking also includes multinational participants with international books of business. AM Best has assessed their premiums and earnings in euros (exchange rate as of 31 December, 2019), based on the companies' published financial reports and accounts, to provide a consistent benchmark for comparison. GWP figures relate solely to the non-life segment, while profit after tax refers to the whole group. Listing excludes pure reinsurers and health insurers.

Source: BESTLINK

shares continued to underperform.

Sampo is the 18th largest non-life insurer ranked by 2019 gross written premium, according to AM Best.

Sampo should also clarify its strategy and commit to being a dividend-focused property/casualty insurer with no material mergers and acquisitions ambitions outside the Nordic region, said Elliott.

In November, Sampo and Rand Merchant Investment Holdings Inc. completed the acquisition of U.K.-based Hastings Group Holdings plc.

Sampo should follow a clarification path until the Hastings deal proves successful, Elliott said.

"We believe that there is widespread confusion amongst investors about the Sampo equity story, including skepticism on the rationale for the Hastings transaction and Sampo's future M&A appetite," said Elliott.

"What is clear is that investors are seeking greater focus on stable dividends, viewed as the lifeblood of a highly rated insurance company, and a commitment by Sampo to become a focused P/C insurer."

Sampo should also enhance communications by "clearly and confidently" articulating the strong fundamentals of If P&C, described by Elliott as the insurer's "crown jewel."

"Shining a spotlight on If P&C will enable Sampo to recover its premium valuation," said Elliott.

Elliott said it advises funds that collectively hold investments equivalent to more than 3% of the share capital of Sampo. BR

Property/Casualty

Catastrophe Modeling, Improved Risk Assessment Among Panel Recommendations to Increase Takeup of Earthquake Insurance

AM Best TV spoke with four industry experts about closing the protection gap that exists even in areas with frequent earthquake activity.

by John Weber

Earthquake loss is a potential catastrophe known to just about everyone living in exposed regions, yet governments and insurers remain frustrated by the limited number of property owners who obtain earthquake insurance. And for those who do get insurance, lapses in coverage can be frequent.

AM Best TV spoke with a panel of experts about what can and should be done to address this issue before the next catastrophic earthquake hits the United States. Participants included Jake Clark, managing director, Guy Carpenter; Brandie Andrews, vice president, AIR Worldwide's Consulting and Client Services Group; Andy Tran, senior vice president, Swiss Re America; and John Huff, CEO, Association of Bermuda Insurers and Reinsurers and former insurance commissioner for the state of Missouri. Following is an edited transcript of the conversation.

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

Is there a protection gap when it comes to earthquakes?

Tran: Before I answer that question, let me quickly define that term. The protection gap is really the difference between the total economic loss and the insured loss. Essentially, it's the uninsured portion. Now the answer to your question is clearly yes. Swiss Re published a *sigma* report on closing the protection gap back in 2015 on property risk. It highlighted multiple perils that

contributed to this gap. The largest peril in the U.S. is earthquake risk. To give you a little context, we think the annual expected uninsured loss in the U.S. is around $42 billion in 2018 dollars. Of that, $26 billion is earthquake risk. That's almost equivalent to the total annual expected loss for insured hurricane losses in the U.S. This is not just a California phenomenon. It's consistent in the other Western states as well as in [Missouri] in the New Madrid hazard zone.

What kinds of financial instruments are available to help governments and communities protect against this risk?

Andrews: One interesting financial instrument is what's called a regional sovereign insurance pool. The World Bank began facilitating these programs in the last 10 or 15 years, and AIR helps with the catastrophe modeling efforts. Instead of pooling individual policyholders, you're pooling countries. The pooled risk is more attractive and provides

"The most necessary step is figuring out where the risk sits today."

John Huff
Association of Bermuda Insurers and Reinsurers

"If we can't get it [mandatory coverage] accomplished on a peril like flood, where I think the argument is probably more compelling than earthquake in some respects, how are we ever going to effect that on a peril like earthquake?"

Jake Clark
Guy Carpenter

governments parametric insurance coverage at a much lower cost than if they were to purchase it individually from the insurance market. Another emerging risk transfer trend for governments is the use of catastrophe bonds, which are similar to risk pools, but instead of getting backers from the reinsurance or insurance markets, they get backing from the capital markets.

Can capital providers actually play a role in reducing earthquake risk and creating insurance uptake?

Clark: Yes. I've been working in the public sector space for a while, trying to match up our industry with [ways] to deleverage some of this risk that's falling to governments. What's encouraging is that we're talking about earthquakes. Normally, when we have these conversations—if you think about pandemic, wildfire or flood—we're always talking about a week after untold devastation has been inflicted upon some of our communities.

Keeping it germane to the U.S., a lot of what's going on, we think, is driven by how the Stafford Act is structured, the process of how federal disaster declarations are made, the politics around them, and how appropriations are made to then fund those disasters. All of that is prompting, in our opinion, a lack of risk assessment that's occurring at the local and the state level, and exacerbating a belief that all of these responsibilities need to fall back to the federal government. Certainly, longer term, tools need to be looked at and reassessed. How do you appropriately structure risk capital around what we're trying to do? If that's done properly, then absolutely there is the ability to bring risk capital, [for example] broader structured programs similar

"The annual expected uninsured loss in the U.S. is around $42 billion in 2018 dollars. Of that, $26 billion is earthquake risk. That's almost equivalent to the total annual expected loss for insured hurricane losses in the U.S."

Andy Tran
Swiss Re America

to what the NFIP has done on flood. We also, though, need to look at all aspects. How regulation works, how insurance companies are allowed to reflect appropriate rates to charge for the risk. How do you increase takeup in that environment? In the short term, there's a welcome opportunity from our industry in looking at [ways] to help close some of the gap.

Since the federal government holds the vast majority of the risk exposure, should it mandate the purchase of earthquake coverage or consider state disaster deductibles on assistance?

Huff: The most necessary step is figuring out where the risk sits today. Whether at the mortgage level for Fannie and Freddie or [people who] may have paid off their home and have not purchased an endorsement for earthquake coverage. As you know, the typical homeowners policy does not provide earthquake coverage. Without that endorsement, there's absolutely no coverage there. The limits for what FEMA can give for individual assistance are woeful, and so the federal government is restricted on what they could [do].

[Instead of] a mandate for coverage, maybe incremental steps would be a mandated offering of coverage, as the education process for consumers to know their risk and to know what coverages are available.

Clark: If we can't get it [mandatory coverage] accomplished on a peril like flood, where I think the argument is probably more compelling than earthquake in some respects, how are we ever going to effect that on a peril like earthquake?

I'm sometimes struck by the dynamic of how regulation works in different areas of this country in terms of reflecting what's appropriate risk rate, just a more robust understanding of what's the risk somebody holds, and then what does it really cost to finance that risk? Then moving from there, how do you structure risk capital around it? Right now, there are far too many examples where taxpayer, debt-based, post-event financing is being called on to fund all of this.

Who ultimately bears the cost when it comes to earthquakes?

Tran: Aside from a risk that's already insured sadly, the homeowners will shoulder a significant

"Another emerging risk transfer trend for governments is the use of catastrophe bonds, which are similar to risk pools, but instead of getting backers from the reinsurance or insurance markets, they get backing from the capital markets."

Brandie Andrews
AIR Worldwide

burden of that loss under what's known as self insured. This is especially for those with equity in their home. Some banks may have that exposure through the mortgage exposure [that is often further repackaged as] mortgage-backed securities. Ultimately it's down to the investors. Again, what remains rests with the taxpayer.

How can the insurance industry better communicate the risk to homeowners, to help increase the purchase of earthquake insurance and close that protection gap?

Andrews: In an average year in North America, there's about a 62% gap in insurance protection across all the different perils that we model. The majority of that does come from earthquake and flood. People studying the uninsured problem claim that not having the right price signal for the risk is important, but obviously it's not the only thing. People need more than just a price. In learning how governments think about buying insurance for disaster recovery finance, it strikes me that there's a parallel to homeowners thinking about buying earthquake insurance.

One of the key considerations for governments is getting the best value for the premium that they pay. It's the concept of the insurance multiple.

Clark: I know this is true in flood; I believe it's true in earthquake as well, and it's an absolute shame. What sells more flood insurance and earthquake insurance than anything? Floods and earthquakes. That's a crime. I think we can all admit it. These are just absolute wealth destroying events. Certainly, at the time of loss, and FEMA acknowledges this on flood, there is nothing that will put dollars into the hands of people quicker than an insurance policy. I have to believe that at the time of loss, the multiples are 6-to-1, 7-to-1 in terms of what people are getting for their premium.

Would smaller companies, which are required to write earthquake coverage, run the same risk in the event of a large scale earthquake if they had to have a mandatory offering?

Huff: There are many ways the regulator can look at the aggregation of losses, and there are capital management tools where a company, a small company, for instance, would not have to hold that risk. They could go to the reinsurance markets, insurance for insurance companies. Our market is very well known for reinsurance, and they have the capital and capacity. A small company would not have to retain that risk, necessarily, or they could choose to retain part of that risk, whatever their risk appetite is.

What's the big takeaway from this panel?

Andrews: The takeaway for me is that catastrophe modelers and other providers of risk analytics can really help the effort to move us forward to more insurance takeup and pre-disaster mitigation.

Clark: A greater understanding of risk and where that sits will lead to more functional and improved change. We think the future is bright, and we're looking forward to working with people to come up with better solutions. BR

AM Best TV

Go to *bestreview.com* to watch the panel discussion.

AM Best: COVID-19 Dampened 2020 Commercial Health Sales

Most insurers reported the individual market and employer group segment were sticking with their existing carriers during the pandemic, which caused a decline in sales.

by John Weber

The U.S. commercial health insurance segment's share of medical premiums is down but earnings remain favorable, according to a Best's Special Report.

While the pandemic slowed new sales of commercial health insurance, it increased persistency, said Joe Zazzera, director, AM Best.

Jason Hopper, associate director, AM Best, joined Zazzera to discuss the report *US Commercial Health Premium Flattens, Enrollment Continues to Slide* with AM Best TV. Following is an edited transcript of the interview.

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

The AM Best report notes the commercial health segment's share of overall medical premium is down. What is driving that?

Hopper: I'd start by saying that the commercial segment is the largest segment of the health insurance industry in terms of premium as well as enrollment. Commercial segment premiums have been consistently increasing, though they had been flat in 2019 and through the third quarter of 2020, our latest available data. Despite the

"Another thing that might factor in 2021 profitability is more normalized utilization, after we saw a huge decrease in the second and third quarter due to the impacts from COVID, elective surgeries getting canceled, and things of that nature."

Jason Hopper
AM Best

increase in premium, the share has been declining for a number of years, accounting for 56% of total health premium in 2009, dropping all the way to 40% in 2019. Even though premiums have been growing, the growth rates at government programs, Medicaid expansion and Medicare Advantage, have been growing a lot faster, which has in turn pushed the share down. Large increases due to the Affordable Care Act and the aging population of the United States have played a factor into the growth into the Medicare Advantage space.

What are the different groups that make up the commercial health segment?

Hopper: There are two main areas. One is the fully insured and one is the self-insured. The fully insured, which is what we predominantly talk about and refer to when we speak of the commercial segment, includes individual health insurance, such as the Affordable Care Act marketplace exchanges, as well as the small employer group and the large employer group.

On the other hand, I mentioned self-insured. That's where employers take on their own risk and buy administrative service contracts or administrative services-only type products. Those types of products do have lower margins for health insurers.

The large-group employer market is by far the largest segment within the commercial space, accounting for between 55% to 60% of premium. The individual space is the second largest since 2015, again, because of the Affordable Care Act and the growth that it brought upon it there.

That now accounts for about a quarter of premium, up from about 17% pre-ACA. The small group has seen consistent premium growth. Again, similar to the government programs, the growth at the large group and the individual group has outpaced the small group, therefore pushing its share down.

Is COVID impacting the segment?

Zazzera: From an enrollment and top-line premium view, the virus didn't result in a larger-than-expected enrollment or premium decline in the commercial health segment through the third quarter. Most carriers were indicating that the individual and groups were sticking with their existing carriers during the pandemic, which did dampen sales.

On the flip side, persistency was better. Many employees were furloughed, but they were given the option to keep their health insurance benefits. The government was implementing federal legislation and programs aimed at providing financial assistance, stimulus, tax relief, forgivable loans, to help individuals and small-group employers.

All this has helped keep stability in membership and premium. We have yet to see the final year-end enrollment and premium numbers, and what they'll look like with the start of job losses in December and the rise in COVID cases during the latter part of 2020, as well as premium rebates in the fourth quarter. We have to see what that's going to mean for premium and enrollment. From a claims perspective, health insurers saw an overall delay in the utilization in the first half of 2020. Surgeries were postponed, people stayed away from doctors' offices. That dynamic was a bit more pronounced for commercial health writers.

Claims activity began to normalize—most were reporting in June it started. Then over the summer, claims were back at normal for most health

“Persistency was better. Many employees were furloughed, but they were given the option to keep their health insurance benefits.”

Joe Zazzera
AM Best

insurers. There was an offset to the lower claims, where insurers did bolster benefits and payments to providers, offering premium credits, co-pay waivers for virtual visits, as well as payments for PPE and telehealth visits.

How does the ACA's enrollment look?

Zazzera: In December, CMS actually reported that the ACA's open enrollment for 2021 was steady with the prior year, showing about 8.2 million enrollees. That's despite several states having switched to state-based exchanges. This is a good indicator that there's some stability now for this segment. The commercial market individual ACA exchange enrollment is stabilizing them.

As we look forward, the president is proposing limiting premiums to 8.5% of income as part of his COVID package the American Rescue Plan. This could result in an increase in enrollment in 2021.

How are insurers in the commercial segment faring from an earnings perspective?

Hopper: There definitely has been a turnaround. In the early years of the ACA, specifically the exchange business, there was a lot of profitability woes. Many companies were experiencing underwriting losses. That has since now turned around after pricing corrections have been implemented. The small and large group employer segment has seen tight margins, but has been fairly consistent and profitable. Profitability has been felt throughout the industry. Over 70% of writers in the individual market now experience profitability. Over 60% in the small group and about half in the large group.

ASO [administrative services only] is also profitable, but does have tighter margins. One thing that we expect to see heading into 2021 and forward, as we see this shift to more ASO-type business, we do expect overall margins to continue to contract a little bit.

Another thing that might factor in 2021 profitability is more normalized utilization, after we saw a huge decrease in the second and third quarter due to the impacts from COVID, elective surgeries getting canceled, and things of that nature. There are hot spots in the country now where elective surgeries are getting canceled again. We'll see how long that might last and how widespread that might become.

Is there a lot of uncertainty when it comes to expectations in 2021?

Zazzera: There's uncertainty around the economy, the impact it's going to have on investments, balance sheets and operating performance metrics. We have the new administration. There's going to be new legislation and regulations that the health sector's going to have to deal with. Earnings could be pressured as utilization increases. Last year, there was talk about a pent-up demand, the fact that that could come into play. There's the trajectory of COVID and the vaccines' effectiveness.

This all is going to have impact on sales, enrollment, premium, and earnings. Of course, there's operational uncertainties that carriers are going to have to deal with as well. BR

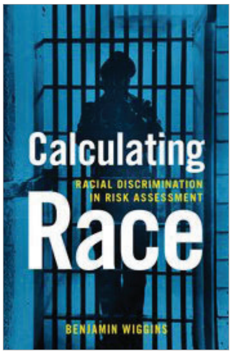
AM Best TV

Go to *bestreview.com* to watch the interview with Jason Hopper and Joe Zazzera.

Professor: Insurers Should Address Those Affected by Historical Inequalities

A historian details the inequities of insurers practicing risk assessment using racial data.

Calculating Race—Racial Discrimination and Risk Assessment



Benjamin Wiggins, professor of history at the University of Minnesota, recently published a book, *Calculating Race—Racial Discrimination and Risk Assessment*. In it he addresses how insurers used discriminatory practices when selling coverage. Following is an edited excerpt of the interview with AM Best TV.

What inspired you to write the book?

My inspiration for the book essentially begins in my first year of college. I entered college with the perspective that racism was this fundamentally wrong thing, but it was also an individual prejudice. I perceived discrimination as this kind of individual, overt and occasional problem rather than a structural, insidious and consistent one.

I thought also that racism was largely a thing of the past and something that the Civil Rights movement had defeated. I know now this is not the case. What changed my perception of racial inequality can be summed up in one word, and that's wealth.

What did you find in your research for the book?

I traced the practice of risk assessment using racial data back into what life insurers were doing in the 19th century. For the first three-quarters of the 19th century, life insurance was this product that was largely restricted to the wealthy.

Working-class people of any race were essentially thought to be too risky to insure because of the dangers of manual labor.

The key shift for the industry was in the 1870s and 1880s when Prudential, John Hancock and MetLife started insuring workers in industrial trades. This pivot helps the 19th-century working class get policies that cover funeral expenses and maybe a bit more.

In 1880, Prudential, Hancock, and MetLife all began to recognize that a significant percentage of their policyholders were African American. They became extremely concerned about the mortality rate of the Black population and decided to drop Black policyholders, cut their benefits, or charge them differential rates.

Eventually, there were African Americans who understood the discrimination that was going on. Out of the Ninth Ward of Boston, a Black legislator, Julius Caesar Chappelle started pushing for legislation and eventually passed the first anti-discrimination legislation bill.

—Meg Green

AM Best TV

Go to *bestreview.com* to watch the full interview with Benjamin Wiggins.

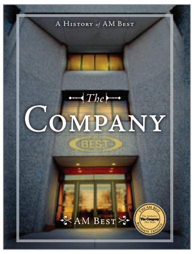
AM Best Trilogy

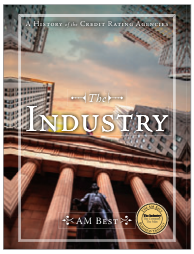
AM Best details the history of AM Best, the history of credit rating agencies, and the life of Alfred M. Best.

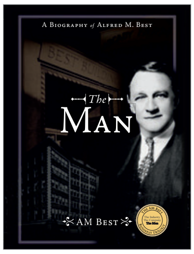
The Company—A History of AM Best

The Industry—A History of Credit Rating Agencies

The Man—A Biography of Alfred M. Best







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available at amazon

Top Content Includes Agent/Broker Series and News on COVID-19 Court Cases

Other trending content includes a look at insurer's priorities in 2021, a webinar on predictive modeling and *Best's Review*'s broker rankings.

Trending: *Best's Review*

1. **What's Ahead**
   As insurers look toward 2021, their priorities and concerns are shaped by the unusual events of 2020.
2. **Insurtech Drives Distribution Innovation**
   Balancing technology and insurance expertise is the key to innovation—and success—for insurtech MGAs.
3. **Programs That Produce**
   Insurance entrepreneurs say the program sector offers the opportunity to quickly build effective, scalable business.
4. **Strength Through Specialization**
   Creating new markets and products to meet the challenge of emerging risks is at the heart of the excess and surplus lines market.
5. **Top Global Insurance Brokers**
   Acrisure LLC and EPIC Insurance Brokers & Consultants each jump two spots in ranking. China-based Fanhua makes a return.

Trending: BestWire

1. **Federal Court Sides Against Zurich in COVID-19 Business Interruption Case**
2. **UK Supreme Court Sides Against Insurers in COVID-19 Business Interruption Test Case**
3. **Trump Pardons Sholam Weiss, Ringleader in $400 Million Insurance Fraud Scheme**

Trending: AM Best Webinars

1. **ESG in the (Re)Insurance Market - What's Considered?**
2. **Integrating Medical and Behavior Data Sources in Predictive Modeling**
3. **Captives in the GCC and Their Rating**

Trending: AM Best TV - News

1. **Novarica: New Regulations Challenge Insurers' Digital Strategies**
2. **Philadelphia's Glomb: Helping When It's Most Needed Builds Strong Bonds**
3. **The Entrepreneurial Agent/Broker: Success Through Specialization**

These were the top trending items from November 23, 2020-January 23, 2021. 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*.

Telehealth Claim Surge from Pandemic Transforms Healthcare Delivery

AM Best also comments on the stock market frenzy impacting social inflation for insurers that provide Robinhood coverage and UK business interruption.

Best's Research

Market Segment Report: New Zealand Life Insurers Resilient Despite Regulatory Changes and Economic Headwinds
New Zealand's life market remains robust despite the regulatory and economic changes, aggressive competition and potential market consolidation.

Special Report: Updated Net Capital Charge Tables for ACIS/CIRT Reinsurance Transactions
This is our fourth update to the semiannual ACIS/CIRT net capital charge tables.

Special Report: Insurers' CLO Holdings Continue to Grow, but Exposures Are Manageable
Credit quality has declined, but insurers tend to invest primarily in senior, high-credit-quality tranches.

Special Report: Telehealth Claim Surge from Pandemic Transforms Healthcare Delivery
Telehealth usage suggests that patients may prefer it as a backup to office visits.

Best's Commentary

Commentary: Stock Market Frenzy Will Add to Social Inflation Pressures
Defense and containment costs are very likely to rise for insurers providing Robinhood coverage.

Commentary: India Insurance Market to Benefit from Increase in Foreign Investment Limit
The revision of India's foreign investment cap presents an opportunity for significant capital inflow.

Commentary: UK Commercial Property Insurers - Looking Beyond a Difficult 2020
It is important for the insurance industry's reputation that transparency is improved and there is greater clarity as to what is covered in a business interruption policy.

Commentary: China Revises Solvency Management Rules to Strengthen Industry Capitalisation
The revised solvency management measures will form the basis of China's upcoming C-ROSS Phase II release.

Trending: Best's Research

1. Market Segment Report: LTC Product Performance Pressures Continue
2. Market Segment Report: Market Segment Outlook: US Commercial Lines
3. Market Segment Report: European Insurers - The Moment Before the Moment

Trending: AM Best TV - Research

1. AM Best: COVID-19 Uncertainty Shadows 2021 Market Outlooks
2. AM Best: Higher Rates Drive Nonstandard Auto Underwriting Profitability
3. AM Best: US Commercial Lines Outlook Remains Negative

These were the top trending items from November 23, 2020-January 23, 2021.

Best's News & Research Service 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.*

Benefits from Optimal Processes, Accurate Analysis and How Insurance Claims Are Changing

Professionals discuss how carriers are investing resources into analytics, how remote access and lifestyle changes are affecting insurance claims and how the insurance industry is tackling long-term care.

On Demand

Remote Access: How Work and Lifestyle Changes Are Transforming Insurance Claims

COVID-19 has accelerated the need for remote claims handling processes, which are greatly affecting today's claims environment. A panel of insurance and legal professionals examines the recent evolution of the claims process and how virtual engagements, technological advancement, insurance fraud and other factors are impacting today's landscape.

Long-Term Care Insurance: What Is the Prognosis?

AM Best analysts and market experts review a recently published Best's Market Segment Report that examines recent developments in the beleaguered market and discuss how the insurance industry is tackling the multiple challenges, including low interest rates and the ability to achieve pricing increases.

Integrating Medical and Behavior Data Sources in Predictive Modeling

A joint research study shows how combining medical and behavior data sources can help life carriers understand how to deliver a fast decision at the point of underwriting. Panelists will explore opportunities in leveraging medical data; carriers will learn how combining these data sources together can create a powerful underwriting scoring model.

Streaming Live

Data Quality Matters: How Insurers Are Benefiting from Optimal Processes and Accurate Analysis

Carriers are investing significant resources into sophisticated analytics to turn data into insights that will inform decisions at every level of their business. A panel of industry experts will examine the importance of data quality, optimal processes and accurate data analysis for insurers across all lines of business.

Wednesday, March 3, 2 p.m. ET

Webinar Highlights

How P/C Insurers Are Benefiting from Better Identity Access Management

A panel of insurance and technical experts explores how an effective Identity Access Management program can provide authentication and verification protection, all while exceeding customer expectations.

View These and Other AM Best Webinars

- Captives in the GCC and Their Rating
- How Cyber Insurance Has Been Impacted by Changing Global Events
- ESG in the (Re)Insurance Market – What's Considered?

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

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

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

Swiss Re Economist: Most Natural Catastrophe Losses in 2020 Were From Secondary Perils

Also, professionals discuss COVID's trio of risks and lowering limits on child abuse and molestation coverage.

On Demand

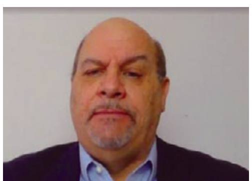
Next Challenge Is Modeling Secondary Perils Triggered by Primary Events

Thomas Holzheu, Swiss Re Americas chief economist, said many recent losses are tied to catastrophic events that historically haven't been known as the most severe events, along with related perils that accompany large events.

Thomas Holzheu

Allianz: 'COVID Trio of Risks' Weighing on Businesses

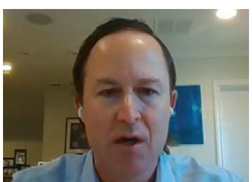
The COVID-19 pandemic, business interruption and cyber top the risks for businesses according to a survey, said Tom Varney, regional manager, Allianz Global Corporate & Specialty.



Tom Varney

Child Abuse and Molestation Are Preventable Risks

While raising rates and lowering limits on child abuse and molestation coverage, insurers are focusing on risk management, said Aaron Lundberg, president and CEO, Praesidium.



Aaron Lundberg

Visit *www.ambest.com/ambtv* to see new and archived video from AM Best TV.

Demand Meter Shows Shopping Patterns of US Consumers

Also, industry professionals talk with AM Best Audio about new opportunities for research.

Auto Shopping and New Business Policy Volumes Increased in Q3

Tanner Sheehan, associate vice president of auto insurance at LexisNexis Risk Solutions, and Chris Rice, senior director of data science, discuss the findings of the LexisNexis Insurance Demand Meter that reveals both auto insurance shopping and new business policy volumes increased overall in Q3, but slowed in August likely impacted by the end of the CARES Act benefits, hurricane activity and wildfires in the West.

Investment Research Aims to Aid Asset Managers

Stewart Foley, editor in chief, *AUM Journal,* discusses the publication's new partnership with Camradata that will allow U.S. insurers to research over 6,000 investment products.

Visit *www.ambest.com/ambaudio* to listen to new and archived audio from AM Best Audio.

This edition lists all Credit Rating actions that occurred between Jan. 1 and Jan. 31, 2021. For the Credit Rating of any company rated by AM Best and basic company information, visit the AM Best website at *www.ambest.com/ratings/access.html* or download the ratings app at *www.ambest.com/sales/ambmobileapp*.

Operating Companies

Rating Action	Business Type	Company Name/ *Ultimate Parent*	AMB#	Current FSR ICR	Current Outlook/ Implications	Previous FSR ICR	Previous Outlook/ Implications	Domicile
AMERICAS LIFE/HEALTH								
—	L	Allstate Assurance Company *The Allstate Corporation*	007289	A+ u aa- u	Negative Negative	A+ aa	Stable Stable	Illinois
—	L	Allstate Life Insurance Co of New York *The Allstate Corporation*	007291	A a+	Stable Negative	A+ aa	Stable Stable	New York
—	L	Allstate Life Insurance Company *The Allstate Corporation*	006027	A+ u aa- u	Negative Negative	A+ aa	Stable Stable	Illinois
⇅	L	American Life & Security Corp. *Midwest Holding Inc.*	006861	B++ bbb+	Positive Positive	B++ bbb+	Stable Stable	Nebraska
⚑	L	Annuity Investors Life Insurance Company *American Financial Group, Inc.*	009088	A+ u aa- u	Developing Developing	A+ aa-	Stable Stable	Ohio
⇅	L	Bankers Conseco Life Insurance Company *CNO Financial Group, Inc.*	060002	A- a-	Positive Positive	A- a-	Stable Stable	New York
⇅	L	Bankers Life and Casualty Company *CNO Financial Group, Inc.*	006149	A- a-	Positive Positive	A- a-	Stable Stable	Illinois
⇅	L	Colonial Penn Life Insurance Company *CNO Financial Group, Inc.*	006240	A- a-	Positive Positive	A- a-	Stable Stable	Pennsylvania
⚑	L	Great American Life Insurance Company *American Financial Group, Inc.*	006474	A+ u aa- u	Developing Developing	A+ aa-	Stable Stable	Ohio
⚑	L	Manhattan National Life Insurance Co *American Financial Group, Inc.*	006842	B++ u bbb+ u	Developing Developing	B++ bbb+	Stable Stable	Ohio
—	L	Mutual of America Life Insurance Company	008851	A a+	Stable Negative	A+ aa-	Negative Negative	New York
⊕	L	Mutual Savings Life Insurance Company *Kemper Corporation*	006753	A a	Stable Stable	A- a-	Positive Positive	Alabama
⇥	H	Nassau Life Insurance Company of Texas	006273	NR nr		B+ bbb-	Negative Negative	Texas
⊕	L	Reliable Life Insurance Company *Kemper Corporation*	006986	A a	Stable Stable	A- a-	Positive Positive	Missouri
⊕	H	Reserve National Insurance Company *Kemper Corporation*	006998	A a	Stable Stable	A- a-	Positive Positive	Illinois
⊕	L	Union National Life Insurance Company *Kemper Corporation*	007155	A a	Stable Stable	A- a-	Positive Positive	Louisiana
⊕	L	United Insurance Company of America *Kemper Corporation*	007174	A a	Stable Stable	A- a-	Positive Positive	Illinois
☑	L	Universal Life Insurance Company *Universal Group, Inc.*	060097	B+ bbb-	Negative Negative	B+ u bbb- u	Negative Negative	Puerto Rico
⇅	H	Washington National Insurance Company *CNO Financial Group, Inc.*	007218	A- a-	Positive Positive	A- a-	Stable Stable	Indiana
⇥	L	Wilco Life Insurance Company	006692	NR nr		A+ aa-	Stable Stable	Indiana
AMERICAS PROPERTY/CASUALTY								
New	P	1842 Insurance Company *Harford Mutual Insurance Group, Inc.*	020868	A a	Stable Stable			Maryland
⊕	P	Alpha Property & Casualty Insurance Co *Kemper Corporation*	002634	A a	Stable Stable	A- a-	Positive Positive	Wisconsin
⚑	P	Bankers Insurance Company *Bankers Financial Corporation*	003683	B++ u bbb u	Negative Negative	B++ bbb	Stable Stable	Florida
⚑	P	Bankers Specialty Insurance Company *Bankers Financial Corporation*	013845	B++ u bbb u	Negative Negative	B++ bbb	Stable Stable	Louisiana
⊕	P	Capitol County Mutual Fire Insurance Co *Kemper Corporation*	003829	A a	Stable Stable	A- a-	Positive Positive	Texas
⇥	P	Catlin Indemnity Company	014156	NR nr		A+ aa-	Stable Stable	Delaware
⇥	P	CGB Insurance Company	022038	NR nr		A- u a- u	Positive Positive	Indiana
⊕	P	Charter Indemnity Company *Kemper Corporation*	010419	A a	Stable Stable	A- a-	Positive Positive	Texas

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

Rating Action	Business Type	Company Name/ *Ultimate Parent*	AMB#	Current FSR ICR	Current Outlook/ Implications	Previous FSR ICR	Previous Outlook/ Implications	Domicile
AMERICAS PROPERTY/CASUALTY (CONTINUED)								
⊕	P	Financial Indemnity Company *Kemper Corporation*	000391	A a	Stable Stable	A- a-	Positive Positive	Illinois
⊕	P	First Acceptance Ins Co of Georgia *First Acceptance Corporation*	012544	B bb	Stable Stable	B- bb-	Stable Stable	Georgia
⊕	P	First Acceptance Ins Co of Tennessee *First Acceptance Corporation*	013595	B bb	Stable Stable	B- bb-	Stable Stable	Tennessee
⊕	P	First Acceptance Insurance Company, Inc. *First Acceptance Corporation*	011832	B bb	Stable Stable	B- bb-	Stable Stable	Texas
⚑	P	First Community Insurance Company *Bankers Financial Corporation*	011572	B++ u bbb u	Negative Negative	B++ bbb	Stable Stable	Florida
⊕	P	Infinity Assurance Insurance Company *Kemper Corporation*	002515	A a	Stable Stable	A- a-	Positive Positive	Ohio
⊕	P	Infinity Auto Insurance Company *Kemper Corporation*	000555	A a	Stable Stable	A- a-	Positive Positive	Ohio
⊕	P	Infinity Casualty Insurance Company *Kemper Corporation*	004661	A a	Stable Stable	A- a-	Positive Positive	Ohio
⊕	P	Infinity County Mutual Insurance Co *Kemper Corporation*	003572	A a	Stable Stable	A- a-	Positive Positive	Texas
⊕	P	Infinity Indemnity Insurance Company *Kemper Corporation*	011669	A a	Stable Stable	A- a-	Positive Positive	Indiana
⊕	P	Infinity Insurance Company *Kemper Corporation*	002217	A a	Stable Stable	A- a-	Positive Positive	Indiana
⊕	P	Infinity Preferred Insurance Company *Kemper Corporation*	011745	A a	Stable Stable	A- a-	Positive Positive	Ohio
⊕	P	Infinity Safeguard Insurance Company *Kemper Corporation*	004941	A a	Stable Stable	A- a-	Positive Positive	Ohio
⊕	P	Infinity Security Insurance Company *Kemper Corporation*	002710	A a	Stable Stable	A- a-	Positive Positive	Indiana
⊕	P	Infinity Select Insurance Company *Kemper Corporation*	011252	A a	Stable Stable	A- a-	Positive Positive	Indiana
⊕	P	Infinity Standard Insurance Company *Kemper Corporation*	000843	A a	Stable Stable	A- a-	Positive Positive	Indiana
⊕	P	Kemper Financial Indemnity Company *Kemper Corporation*	002701	A a	Stable Stable	A- a-	Positive Positive	Illinois
⊕	P	Kemper Independence Insurance Company *Kemper Corporation*	012213	A a	Stable Stable	A- a-	Positive Positive	Illinois
⇅	P	Knight Specialty Insurance Company *KnightBrook LLC*	022046	B++ bbb+	Stable Stable	B++ bbb+	Stable Negative	Delaware
⇅	P	KnightBrook Insurance Company *KnightBrook LLC*	003140	B++ bbb+	Stable Stable	B++ bbb+	Stable Negative	Delaware
—	P	Loudoun Mutual Insurance Company	000664	A- a-	Stable Stable	A a	Negative Negative	Virginia
⊕	P	Merastar Insurance Company *Kemper Corporation*	003596	A a	Stable Stable	A- a-	Positive Positive	Illinois
⊕	P	Mutual Savings Fire Insurance Company *Kemper Corporation*	003655	A a	Stable Stable	A- a-	Positive Positive	Alabama
⊕	P	Nationwide Indemnity Company *Nationwide Mutual Insurance Company*	011664	A+ aa-	Stable Stable	B+ u bbb- u	Positive Positive	Ohio
⊕	P	Old Reliable Casualty Company *Kemper Corporation*	003807	A a	Stable Stable	A- a-	Positive Positive	Missouri
⊕	P	Oswego County Mutual Insurance Company	011194	A a	Stable Stable	A- a-	Positive Positive	New York
⊕	P	Response Insurance Company *Kemper Corporation*	011946	A a	Stable Stable	A- a-	Positive Positive	Illinois
⊕	P	Response Worldwide Direct Auto Ins Co *Kemper Corporation*	003045	A a	Stable Stable	A- a-	Positive Positive	Illinois
⊕	P	Response Worldwide Insurance Company *Kemper Corporation*	000609	A a	Stable Stable	A- a-	Positive Positive	Illinois
New	P	Summit Specialty Insurance Company *McCarthy Group, LLC*	020950	A a	Stable Stable			Nebraska
New	P	The Gray Indemnity Company *Gray & Company, Inc.*	023279	A- a-	Stable Stable	NR nr		Texas
⊕	P	Trinity Universal Insurance Company *Kemper Corporation*	002523	A a	Stable Stable	A- a-	Positive Positive	Texas

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

Rating Action	Business Type	Company Name/ *Ultimate Parent*	AMB#	Current FSR ICR	Current Outlook/ Implications	Previous FSR ICR	Previous Outlook/ Implications	Domicile
		AMERICAS PROPERTY/CASUALTY (CONTINUED)						
⊕	P	Union National Fire Insurance Company *Kemper Corporation*	003199	A a	Stable Stable	A- a-	Positive Positive	Louisiana
⊕	P	United Casualty Insurance Co of America *Kemper Corporation*	002533	A a	Stable Stable	A- a-	Positive Positive	Illinois
⊕	P	Unitrin Advantage Insurance Company *Kemper Corporation*	012163	A a	Stable Stable	A- a-	Positive Positive	New York
⊕	P	Unitrin Auto and Home Insurance Company *Kemper Corporation*	012560	A a	Stable Stable	A- a-	Positive Positive	New York
⊕	P	Unitrin County Mutual Insurance Company *Kemper Corporation*	011055	A a	Stable Stable	A- a-	Positive Positive	Texas
⊕	P	Unitrin Direct Insurance Company *Kemper Corporation*	011762	A a	Stable Stable	A- a-	Positive Positive	Illinois
⊕	P	Unitrin Direct Property & Casualty Co *Kemper Corporation*	012212	A a	Stable Stable	A- a-	Positive Positive	Illinois
⊕	P	Unitrin Preferred Insurance Company *Kemper Corporation*	012561	A a	Stable Stable	A- a-	Positive Positive	New York
⊕	P	Unitrin Safeguard Insurance Company *Kemper Corporation*	003289	A a	Stable Stable	A- a-	Positive Positive	Wisconsin
⊕	P	Valley Property & Casualty Insurance Co *Kemper Corporation*	011979	A a	Stable Stable	A- a-	Positive Positive	Oregon
⊕	P	Warner Insurance Company *Kemper Corporation*	002028	A a	Stable Stable	A- a-	Positive Positive	Illinois
⊕	P	Wayne Mutual Insurance Company *Wayne Mutual Insurance Company*	004703	A a	Stable Stable	A- a-	Positive Positive	Ohio
		EUROPE, MIDDLE EAST & AFRICA						
⇥	P	Credendo - Single Risk Insurance AG *Credendo Export Credit Agency*	090599	NR nr		A- u a- u	Developing Developing	Austria
New	P	Group Ark Insurance Limited *White Mountains Insurance Group, Ltd.*	074566	A a	Stable Stable			United Kingdom
⇥	P	Rosgosstrakh Insurance Company, OJSC *Central Bank of the Russian Federation*	078879	NR nr		B- bb-	Stable Stable	Russia
		ASIA-PACIFIC						
⇅	P	Hotai Insurance Co., Ltd. *Ho Tai Motor Co., Ltd.*	086271	A- a-	Positive Positive	A- a-	Stable Stable	Taiwan
		AMERICAS						
⇅	P	Knight Insurance Company Ltd. *KnightBrook LLC*	072139	B++ bbb+	Stable Stable	B++ bbb+	Stable Negative	Cayman Islands

Holding Companies

Rating Action	Company Name	AMB#	Current ICR	Current Outlook/ Implications	Previous ICR	Previous Outlook/ Implications	Domicile
⇅	CNO Financial Group, Inc.	058030	bbb-	Positive	bbb-	Stable	Delaware
⊕	First Acceptance Corporation	051487	b-	Stable	ccc+	Stable	Delaware
⊕	Infinity Property and Casualty Corp	051078	bbb	Stable	bbb-	Positive	Ohio
⊕	Kemper Corporation	058711	bbb	Stable	bbb-	Positive	Delaware

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

GUIDE TO BEST'S FINANCIAL STRENGTH RATINGS – (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.

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.

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

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 Version 121719

Acquisitions, Name Changes and State Actions

Security Life of Denver is among the life/health and property/casualty insurers in the United States that have had a recent corporate change.

LIFE/HEALTH

Acquisitions & Ownership Changes

Security Life of Denver Insurance Company (AMB# 007029), Denver. This company was acquired by Resolution Life U.S. Holdings Inc., a subsidiary of Resolution Life Group Holdings LP, from Voya Financial Inc. on Jan. 4, 2021.

PROPERTY/CASUALTY

Name Changes

Sentry Insurance a Mutual Company (AMB# 002466), Stevens Point, Wis. This company converted to a Mutual Holding Company structure, became a Wisconsin stock insurance company and changed its name to Sentry Insurance Company on Jan. 1, 2021.

State Actions

Global Hawk Property and Casualty Insurance Company (AMB# 022294), Delaware. This company was placed into insolvent liquidation on Jan. 7, 2021.

Masthead: Backstay

Background illustrations on both mastheads are of HMS Victory. To learn more about The Nelson Collection at Lloyd's, visit *www.ambest.com/nelson*

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As the World Turns: Global Perceptions of Life Insurance

The reasons for owning life insurance, along with consumer buying behavior, vary around the world. However, nearly everyone agrees it's an important part of personal risk management.

by Lori Chordas

While some products have a distinct look and feel in different parts of the world, one product with a universal semblance is life insurance. The reasons for owning the coverage, however, along with the way consumers purchase it, can often speak a different language.

In France and parts of Asia, such as China and India, life insurance is largely seen as an essential product to supplement individuals' retirement incomes. Citizens in Hong Kong, Japan and Singapore look to the coverage to replace the income of a wage earner, while those in the U.S. and Brazil often purchase a policy to cover financial expenses and burial costs, according to Limra.

While perceptions about the coverage vary, something nearly everyone around the globe can agree on, amplified by COVID-19, is that life insurance is a vital part of personal risk management, said Paul Arrowsmith, president of international operations for LL Global—the parent company of Limra, Loma and Secure Retirement Institute. However, ownership of the product still remains relatively low in some areas of the world.

Today in the U.S. and Europe, only about half of the population owns life insurance, according to Limra's 2020 *Consumer Pulse Series* study. It's a slightly different story in the Asia Pacific region, which has among some of the highest ownership rates with three-quarters of consumers in Hong Kong, India, Taiwan and Singapore owning a policy and seven in 10 citizens in China and Thailand having made the purchase.

"We tend to see higher uptake of sales in mature markets compared to those in emerging or developing countries," Arrowsmith said.

Culture is also key, noted Bob Pain, CEO of the Association of International Life Offices. "Some cultures need more convincing about the need for life cover; others aren't drawn to a product where they don't get something in return at the end of the term. But in a country like Japan, where culture is very much about honor, if citizens believe a product like life insurance is good for them then they will stick with the product and carry out paying premiums."

In many corners of the world, the proportion of people who own a life insurance product falls below the percentage who believe they need the coverage. In India, 91% of consumers say they need life insurance but only 74% own it, and 87% of Malaysians recognize its need despite only 56% having made the purchase, Limra reports.

In nations like the U.S., South Korea and Japan, 30% of consumers prefer to research and buy life insurance online, Arrowsmith said. But in many other locales, the purchase is still predominantly made face to face with an adviser. However, he said many consumers in those nations expect online sales of life insurance to increase "by some extent" within the next five years. BR

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