BEST'S JOURNAL

AM BEST'S MONTHLY INSURANCE ISSUES & ANALYSIS NEWSLETTER

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AM BEST'S MONTHLY INSURANCE ISSUES & ANALYSIS NEWSLETTER

Best's Market Segment Reports

Best's Market Segment Outlooks

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March 1, 2021 • Volume 8 • Issue 3 journal.ambest.com

In This Issue

In February, we revised our outlooks for the US title and US excess and surplus lines segments from Negative to Stable. Despite the COVID-19 pandemic and all of its inherent challenges, the title insurance industry performed exceptionally well in 2020 and was the most profitable segment in the property/casualty industry, a trend we expect will continue. The E&S lines' ongoing profitability and premium growth signal growth opportunities for the surplus lines carriers.

Insurers in Texas are facing their biggest weather-related challenge since Hurricane Harvey in 2017. Winter storms, below-freezing temperatures, and ice-related damage may result in insured losses measuring in the billions of dollars. The omeowners, commercial property, and auto lines of business expect elevated claims activity.

Recent market volatility surrounding GameStop, AMC, AMD, and other stocks is expected to give rise to significant class action activity, which could impact directors and officers (D&O) claims. Insurers may face steep defense and containment costs (DCC).

We released a commentary on the return of the US to the Paris Agreement and how this will affect (re)insurers as they focus on environmental, social, and governance (ESG) factors. Growing climate risk concerns have led (re)insurers to consider these ESG factors in their investment and underwriting decisions.

In the UK, as the February 2021 renewal deadline approached, ten protection and indemnity (P&I) clubs, which insure ocean-going ship owners, announced that they would apply a general increase to P&I premium rates. Factors that made 2020 a difficult year for UK commercial property insurers are expected to subside in 2021. A high court ruling in January 2021 added clarity related to non-damage business interruption claims.

The European Insurance and Occupational Pensions Authority (EIOPA) published final advice for the European Commission's review of its Solvency II regime. EIOPA's proposals reflect Solvency II's compromises over theory, practice, history, and politics.

Despite a weakened economic environment caused by the pandemic, the New Zealand life insurance market remains robust. AM Best expects operating performance to remain resilient, with limited direct losses from the pandemic.

India's finance ministry announced measures that will provide insurers with greater flexibility to raise capital to bolster solvency. We view this as a credit positive for India's rapidly developing insurance market.

Russia's insurance industry faced new challenges in 2020, but also set the stage for future innovation with potential long-term growth opportunities. Increased online distribution, underwriting, and claims handling are likely to support further development of Russia's insurance industry.

Finally, auto policyholders in Argentina face premium hikes of over 50% in 2021, owing to a number of factors, such as the ongoing depreciation of the Argentinian peso, as well as supply chain disruptions leading to higher prices for purchasing and repairing vehicles.

Matt C Mosher

Matthew C. Mosher
President & CEO – AM Best Rating Services, Inc.

BEST'S MARKET SEGMENT REPORT

February 4, 2021

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

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Weakened economic fundamentals and the prospect of lower for longer interest rates, both consequences of the COVID-19 pandemic, present fresh headwinds for life insurers operating in New Zealand. However, AM Best notes that these insurers are also facing up to existing regulatory and competitive challenges, which when combined, create a testing operating environment for the country's life insurers.

Despite these headwinds, the life insurance industry in New Zealand has a track record of robust operating performance, driven by generally favourable underwriting results. Notwithstanding the prevailing lower investment return environment, AM Best expects operating performance to remain resilient for New Zealand's life insurers, with limited direct losses arising from the COVID-19 pandemic.

Significant Development in Regulatory Environment

The regulatory spotlight has fallen on the life insurance market in New Zealand in recent years, resulting in heightened regulatory oversight for the segment. This follows in-depth conduct and culture reviews of both the banking and insurance sectors undertaken by the Reserve Bank of New Zealand (RBNZ) and Financial Market Authority (FMA) between 2018 and 2019. The key objectives of this review were to identify any existing conduct and culture issues in the market, and to evaluate how life insurers identify and remediate issues. Significant weaknesses were identified in the governance and management of conduct risks across the sector. In addition, sales incentives, such as high upfront new business commissions, were found to promote policy replacement activity and were being prioritised over policyholder needs.

In the wake of the conduct and culture review, a new financial conduct regime was introduced to address the issues identified. The new regime, which requires insurers to meet a fair treatment standard and prohibits sales incentives based on volume or value targets, positions customer outcomes at the centre of the regulatory landscape. In addition, a new regulatory framework for financial advice was enacted to strengthen conduct risk management throughout the insurance value chain.

The increased focus and resources needed to respond to and comply with the additional regulatory burden has led to a rise in life insurers' costs. The industry has developed conduct and culture action plans, while prospective compliance with regulatory regimes will require a re-think of existing sales and commission practices. AM Best expects continued regulatory focus in this area, with insurers continuing to devote time and resources to deliver consistently good outcomes and product value for customers, while the risk presented by conduct failings has increased significantly.

Outside of conduct and culture, further regulatory development is on the cards, with the RBNZ currently reviewing the effectiveness of the insurance prudential regulation and associated solvency standards, including consideration of the transition to IFRS 17. As part of this review, the RBNZ will update the legislation based on recent experience and consider the case for solvency buffers, with the aim of improving the market's capital resilience. In AM Best's view, insurers will need to be prepared for the regulatory and financial impacts that the ongoing prudential review may bring.

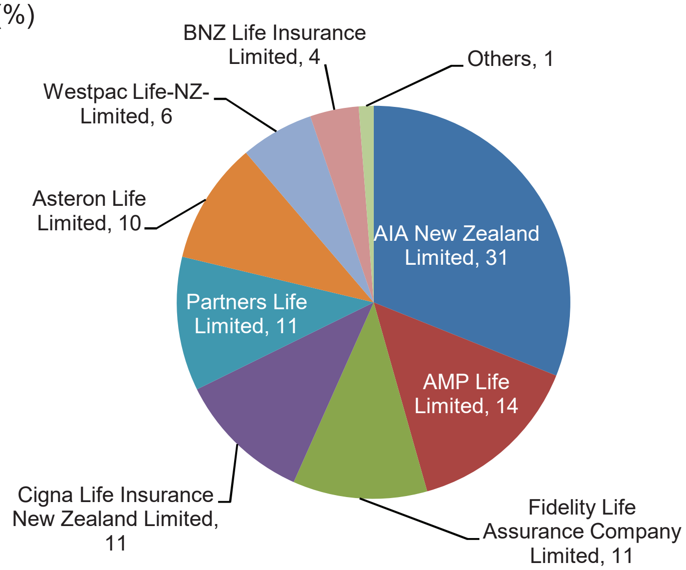
Market Consolidation to Increase Competition

New Zealand's life insurance market grew by 2.6% over the year to 30 June 2020, with in-force annual premium income reaching NZD 2.7 billion. The industry remains somewhat concentrated, with the top five insurers representing approximately 80% of the market based on in-force annual premium income for the year to 30 June 2020 (**Exhibit 1**).

Furthermore, there has been significant M&A activity in the segment in recent years. Examples include the sale of Sovereign Assurance Company (formerly the largest life insurer in the market) to AIA Group, as well as other sizeable deals such as Cigna Corporation's acquisition of OnePath Life (NZ) and its subsequent amalgamation with Cigna Life Insurance New Zealand. An important driver of this market consolidation is the ongoing trend of the separation of banking and insurance operations being observed in the Australasia region. The divestment of life insurance businesses by the region's financial institutions is at least in part attributable to higher capital requirements, as well as a drive to refocus on core banking activities.

We expect market consolidation to continue over the near term and result in further concentration among leading insurers. Most recently in December 2020, National Australia

Exhibit 1
New Zealand Life Insurance – Market Share by In-force Annual Premium Income, as of June 2020
(%)



Note: Members of the Financial Services Council account for 95% of the life insurance segment in New Zealand.
Source: Financial Services Council (FSC)

Bank announced that it had reached an agreement to sell its New Zealand life insurance operations, including BNZ Life Insurance, to Partners Life. In addition, market consolidation may amplify already highly competitive market conditions, particularly against the backdrop of a potential reduction in demand for life insurance in New Zealand, due to economic uncertainty caused by the COVID-19 pandemic.

Economic Uncertainty Arising from COVID-19 May Challenge Top Line Growth

New Zealand's life insurers are already feeling the knock-on effect of the COVID-19 pandemic, with new business sales for the June 2020 quarter being significantly impacted by the economic downturn brought on by the pandemic and the associated lockdown. During the second quarter of 2020, New Zealand was subject to a strict lockdown due to COVID-19, which led to the economy's quarterly contraction of 11%, the sharpest on record. Although new business volumes slowed from the disruption to distribution channels, life insurers focused on long term customer retention and put in place measures such as premium holidays to support policyholders experiencing financial hardship.

The economic outlook for New Zealand remains uncertain despite an as of yet successful response to the pandemic. The country saw a rebound in economic growth of 14% over the quarter to September 2020 with the lifting of pandemic containment restrictions. New life insurance sales for the September 2020 quarter also showed signs of recovery. However, in AM Best's view, the economic fallout from the pandemic and the uncertainty associated with it has the potential to adversely affect life insurance sales and customer retention over the near term.

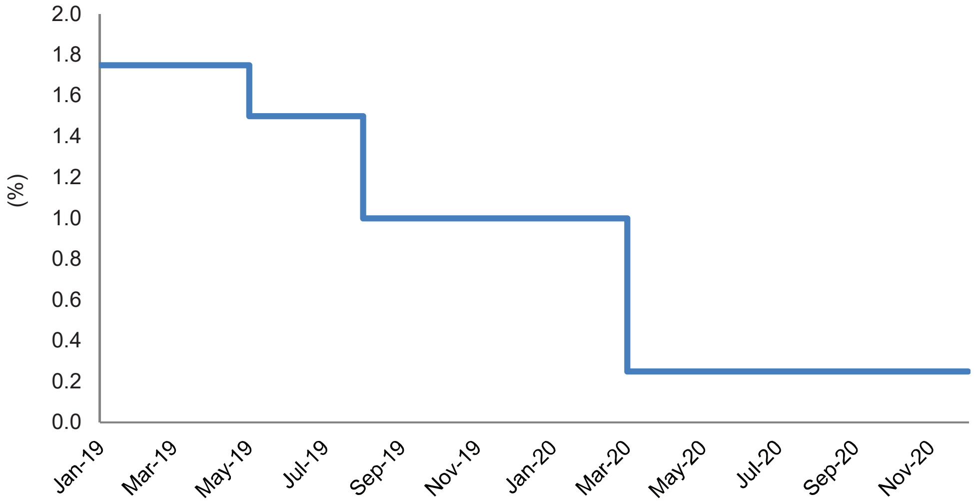
Despite the rebound in economic activity, unemployment in New Zealand is projected to rise in 2021 and gradually fall thereafter, according to the RBNZ's monetary policy statement published in November 2020. This will raise longer term insurance affordability concerns for the sector. These concerns may deepen as temporary relief measures such as government wage subsidies have run their course. With the significant uncertainty associated with COVID-19, life insurers in New Zealand face the risk that the impact of weakened economic fundamentals on new business growth, customer retention and policy lapse rates will be more pronounced, or lasts for longer than estimated, which could subsequently impact profitability.

Falling Interest Rates to Pressure Solvency Ratios and Investment Returns

Even prior to the onset of COVID-19, New Zealand had started to reduce interest rates, a trend that accelerated with the government's economic response to the pandemic. The official cash rate (OCR) in New Zealand decreased to a historic low of 0.25% where it has remained since March 2020, a significant fall from 1.75% in March 2019 (**Exhibit 2**). The RBNZ has stated its preparedness to provide additional economic stimulus if required, for example, should there be further waves of COVID-19 outbreaks or economic shutdowns in the country. As a result, the OCR is likely to be susceptible to further decline, even into negative territory over the near term. These interest rate cuts serve to add pressure to life insurers' capital adequacy, while the prospect of a prolonged low interest rate environment challenges investment return potential.

AM Best considers the New Zealand life industry to be sufficiently capitalised overall. However, we note that capitalisation levels vary widely among insurance companies and that some life insurers have experienced a high degree of volatility in their solvency positions in recent years, largely driven by new business strain. The aggregate regulatory solvency ratio for the industry has also declined in recent years, from 151% in March 2013 to 124% in March

Exhibit 2
New Zealand – Official Cash Rate (OCR), 2019-2020



Source: Reserve Bank of New Zealand

2020, as reported by the RBNZ. Solvency standards in New Zealand require that a company's regulatory solvency margin does not fall below 100% and in some instances, life insurers have additional licence conditions in excess of this base requirement.

In response to declining interest rates, and the risk of subsequent decrease in solvency ratios, the RBNZ has issued licence conditions to a number of life insurers with regulatory capital adequacy that it considers to be sensitive to interest rate fluctuations. These licence conditions require insurers to hold additional capital margins in excess of the regulatory minimum to mitigate these risks. While compliance with additional licence conditions may prove a test for these insurers, those with demonstrated financial flexibility, robust internal capital management plans and stronger solvency ratios are considered by AM Best to be well-placed to respond to these challenges.

The low interest rate environment also presents operating performance hurdles. A large part of life insurers' investment portfolios in New Zealand are composed of term deposits and fixed income securities, with returns from these asset holdings directly correlated to the interest rate environment. Given the reduction in interest rates, a decline in investment income is expected, and may persist for a prolonged period. Furthermore, the investment risk profile is viewed to have increased, driven by weaker economic fundamentals which contribute to the risk of potentially higher issuer default rates in the future. In the current context, New Zealand's life insurers can no longer rely on achieving the same return levels from their current investment risk profile. This may result in insurers increasing asset risk either through investing in higher yielding fixed income instruments or by increasing exposure to equity investments, which ultimately exposes balance sheets to the potential for heightened volatility.

Underwriting Performance Expected to Remain Robust Amid Pandemic

Despite the headwinds, the New Zealand life insurance market has a track record of robust operating performance. For the year to 30 June 2020, the industry's profit margin was 10.9%, according to the RBNZ. Operating returns were underpinned by favourable underwriting results, as well as positive net investment returns in spite of the financial market consequences of COVID-19.

The segment's product mix is an important driver of underwriting profitability. The business mix of the New Zealand life insurance segment is dominated by personal protection products with yearly renewable terms, for which the premium rates are not guaranteed and are reviewed periodically. The market has seen consistently favourable claims experience on these products as a result of these features. In addition, traditional life insurance products with savings and guarantee components are less prevalent in the New Zealand market, and those insurers with exposure to these legacy products generally benefit from mature in-force portfolios. The business mix also reduces the segment's reliance on generating sufficient investment returns to service policyholder guaranteed return rates.

In AM Best's view, the direct mortality impact of the COVID-19 pandemic on life insurers' underwriting performance in New Zealand is unlikely to be material. This is largely due to the successful containment of the COVID-19 pandemic in the country to date, and as a result, the likelihood of significantly increased mortality and other claim exposures is considered to be low. AM Best notes the potential for increased risk of claims associated with the economic impact of COVID-19, arising from redundancy and mental health related product riders. However, the claims impact is viewed to be modest, with these covers representing only a limited proportion of the overall business mix and carrying generally low benefit limits. In addition, product restrictions for new business and stringent underwriting processes are expected to mitigate the emergence of adverse claims experience.

Notwithstanding expected reductions in investment returns over the near term, and the potential for a slowdown in sales as a result of the pandemic, AM Best expects life insurers in New Zealand to continue to generate robust underwriting returns, ultimately supporting operating earnings for the segment over the coming years.

What Next?

In AM Best's view, adapting to regulatory developments, competitive conditions and market consolidation, along with the side effects of the COVID-19 pandemic, will remain central themes for life insurers operating in New Zealand over the coming years. While initial mortality concerns linked to COVID-19 have faded in this market, the economic fallout from the pandemic continues to present uncertainties, which may challenge premium growth opportunities in the near term.

Responding to these market dynamics has required life insurers to develop and strengthen their risk management capabilities, particularly in responding to regulatory developments and the management of conduct risk. In our view, embedding robust risk management frameworks, maintaining favourable operating performance and ensuring capital adequacy will be critical to insurers remaining resilient to the challenges faced. Furthermore, AM Best expects an increased focus on innovation initiatives in the market over the coming years. In the context of competitive market conditions, investment in digital transformation can be expected to contribute toward operational efficiencies, diversifying distribution channels and strengthened product development and pricing capabilities, as insurers utilise the levers available to them to maintain and enhance profit margins.

While headwinds are expected to persist, AM Best considers the robust performance track record and adequate capitalisation of the life insurance market in New Zealand as indicative of the segment's ability to manage the challenges faced. AM Best will continue to monitor the impact of current market dynamics on the creditworthiness of rated life insurers in New Zealand.

Exhibit 3
New Zealand Life Insurers – AM Best-Rated Companies
Ratings as of February 2021

AMB #	Company Name	Best's Long-Term Issuer Credit Rating (ICR)	Best's Financial Strength Rating (FSR)	Best's ICR & FSR Action	Best's ICR & FSR Outlook	Rating Effective Date
091593	BNZ Life Insurance Limited	a u	A u	Under Review	Negative	18-Dec-20
086363	Cigna Life Insurance New Zealand Limited	a	A	Affirmed	Stable	4-Feb-20
091826	Co-operative Life Limited	bbb+	B++	Affirmed	Stable	24-Sep-20
090784	Fidelity Life Assurance Company Limited	a-	A-	Affirmed	Stable	21-Jan-21
078699	Foundation Life (NZ) Limited	a-	A-	Affirmed	Stable	3-Sep-20
092400	Kiwi Insurance Limited	a-	A-	Affirmed	Stable	25-Jun-20
094359	Lifetime Income Limited	bb u	B u	Under Review	Negative	22-Jan-21
095487	Momentum Life Limited	bbb	B++	Affirmed	Stable	28-Feb-20
091252	Partners Life Limited	a- u	A- u	Under Review	Developing	18-Dec-20
092782	Pinnacle Life Limited	bb+	B	Affirmed	Stable	28-Feb-20

Sources: BESTLINK Best's Financial Suite - Global, AM Best data and research

February 17, 2021

P&I Clubs in 2021 — Navigating Their Way in a Hardening Market

Principal Takeaways

- P&I clubs are seeking price improvements at the February 2021 renewal, in response to deteriorating claims experience and volatile investment markets
- The cost of pooled claims were at a record high for the first half of the year, with further claims added in the second half
- The COVID-19 pandemic has not been a major driver of P&I club pool claims but the clubs have reported attritional pandemic-related passenger and crew claims, as well as claims for cruise vessels
- For 2020/21, AM Best expects P&I clubs to return a combined underwriting loss for the fourth consecutive year
- Brexit has caused UK-domiciled P&I clubs to establish subsidiaries in the EU in order to continue to serve their customers

AM Best expects the clubs to return another combined underwriting loss

Pricing improvements are needed ahead of the February 20, 2021 protection and indemnity (P&I) renewal for ship-owners, amid deteriorating claims experience, volatile financial markets and challenging commercial conditions.

For the second consecutive year, the majority of P&I clubs have announced general increases for the 2021 renewal, in response to another year of combined underwriting losses.

The P&I sector is dominated by the 13 members of the International Group of P&I Clubs (International Group), which collectively insure approximately 90% of the world's ocean-going tonnage. In advance of the February 2021 renewal deadline, 10 clubs have announced that they will apply a general increase to P&I premium rates.

The general increases announced for the policy year 2021/22 are slightly above the previous year, ranging between 5% and 10%, and have been attributed to:

- The erosion of premium levels over recent years to a level considered unsustainable
- An increase in the cost of pool claims, and
- Financial market volatility and lower expected investment returns

AM Best considers the level of general increases modest given the underwriting loss expected for 2020/21. However, as mutual insurers operating for the benefit of their members, the 13 clubs must balance the need to maintain their financial stability with the economic constraints of their membership. Due to the COVID-19 pandemic, commercial conditions for ship-owners are even more challenging than in previous years, and with the current high level of free reserves across the International Group, a higher level of general premium increases may be difficult for clubs to justify to their members.

Gard (P&I) Bermuda Limited (Gard), The Britannia Steam Ship Insurance Association Limited (Britannia P&I) and Assuranceforeningen Skuld (Skuld), are not applying a general increase this year in line with their usual practice. Instead, premium rates and terms will be adjusted

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based on member-specific information. However, all three clubs have commented on the need for premium rate improvements at the 2021 renewal to address underwriting losses.

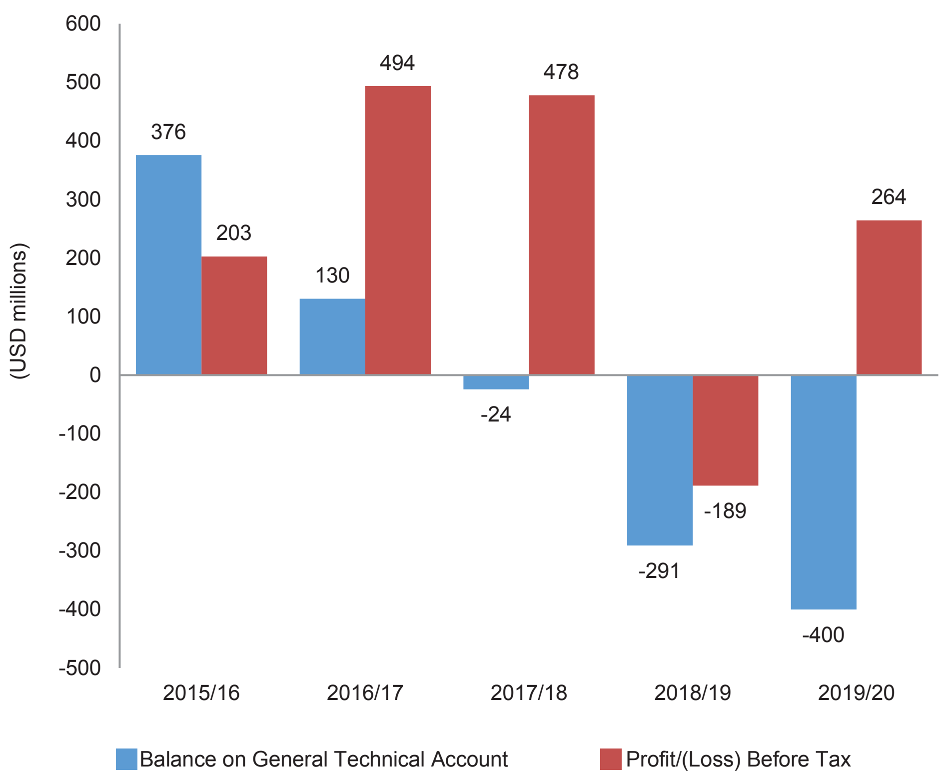
Over the past few years, renewals have become increasingly informed by analysis of individual loss records and risk exposures, with deductibles used to control exposures. AM Best notes that member-specific pricing adjustments are also carried out by clubs applying general increases.

Technical Results Continue to Deteriorate

The International Group reported an underwriting deficit of USD 400 million for the 2019/20 financial year (including premium discounts), based on the combined accounts of the 13 principal clubs of the International Group (see **Exhibit 1**). On the same basis, the combined ratio rose to 114% from 110% in the prior year (see **Exhibit 2**).

The deterioration in technical performance was caused by an increase in net claims incurred, while call income remained stable. Unlike in the previous year, all 13 clubs reported a technical loss for the financial year 2019/2020 (11 clubs in 2018/19). Claims incurred rose by 7% in 2019/2020, following a 5% increase in the previous year, and were above the five-year average (see **Exhibit 3**).

Exhibit 1
P&I Clubs – Financial Performance of the International Group



Note: Combined accounts of the 13 principal clubs of the International Group (the whole of the International Group is not captured).

Source: BESTLINK Best's Financial Suite – Global, AM Best data and research

The clubs' expense ratio decreased in 2019/2020 to 21.4%, following a sharp increase in the previous financial year that was driven by one-off expenses. However, even with this drop AM Best notes that the expense ratio has risen by approximately two percentage points since 2015/16.

The clubs compete on the service levels provided and the demand for superior claims handling, knowledge of local markets, loss prevention advice and other services restricts the clubs' ability to reduce expenses.

Influences on Claims (Including the COVID-19 Pandemic)

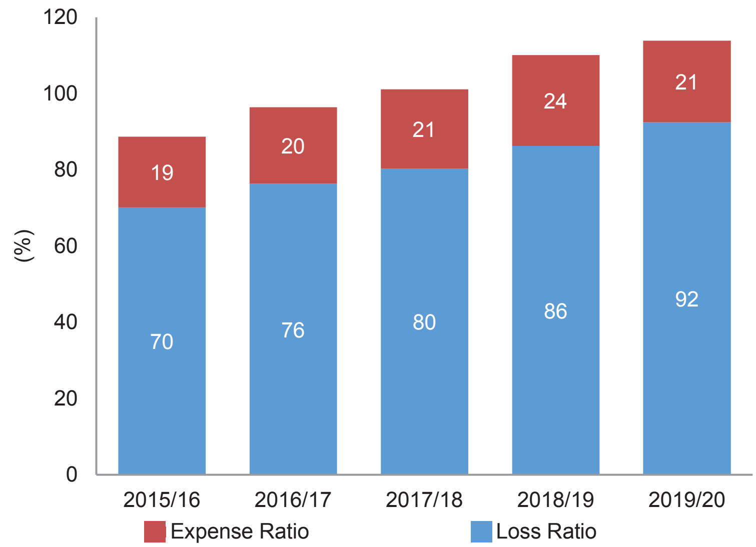
A number of factors continue to influence claims trends, asserting an upward pressure on costs:

- The increasing size of vessels, which adds complexity when they suffer severe incidents.
- An upward trend in ship-owners' liability limits.
- Technological advances allowing deep-water wreck removal.

By contrast, a fall in the age profile of vessels, technological advances in navigation, investment in loss prevention, and increases in club deductibles continue to help push down claims costs. In addition, the number of large claims seen in any one year will vary, leading to volatile loss experience.

Exhibit 2

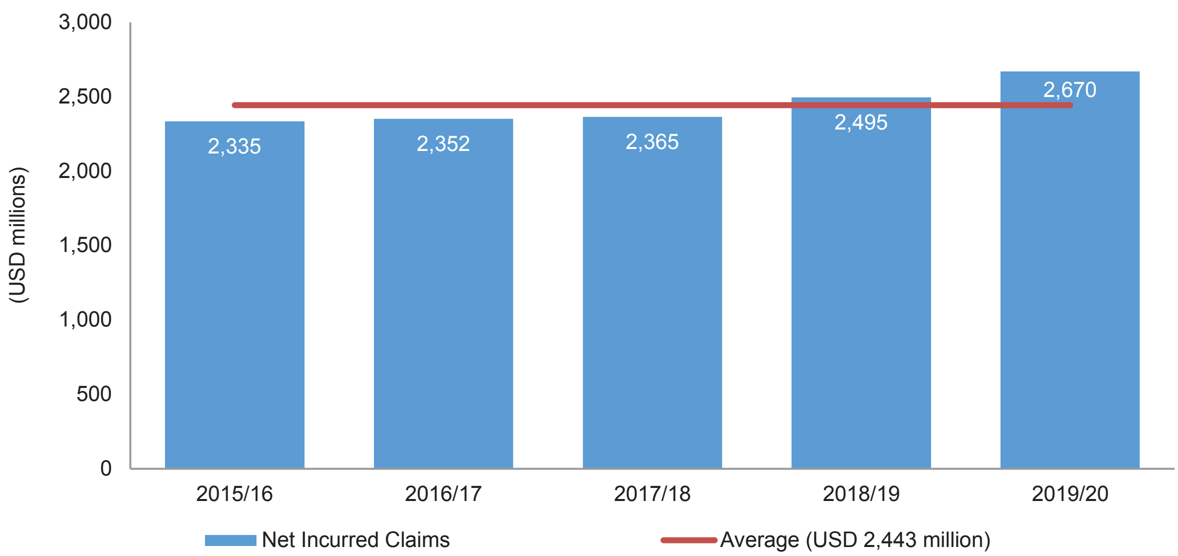
P&I Clubs – Combined Ratios of the International Group



Note: Combined accounts of the 13 principal clubs of the International Group (the whole of the International Group is not captured)
Source: BESTLINK Best's Financial Suite – Global, AM Best data and research

Exhibit 3

P&I Clubs – Net Incurred Claims



Note: Combined accounts of the 13 principal clubs of the International Group (the whole of the International Group is not captured)
Source: BESTLINK Best's Financial Suite – Global, AM Best data and research

For 2020/21, AM Best expects the clubs to return another combined underwriting loss. The cost of pooled claims were at a record high for the first half of the year, with further claims added in the second half. Year to date, pool claims costs appear to be higher than in 2019/2020, which was already a costly year for the pool.

AM Best notes that the COVID-19 pandemic has not been a major driver of pool losses. However, clubs reported attritional passenger and crew claims related to the pandemic and three COVID-19-related claims for cruise vessels have hit the pool. In addition, the pandemic may have had an indirect impact as the shortage of experienced employees and the higher levels of fatigue and stress, caused by a reduction in crew rotation and rest periods, might have led to an increase in claims caused by crew errors.

Investment Performance Affected by Equity Market Volatility

Investment returns for 2019/20 were above average, due to the upturn in equity markets, following the decline during the last quarter of 2018. Ten of the 13 clubs reported a profit before tax for the year (compared with only four in the previous year) and overall, the combined result for 2019/20 was a profit before tax of USD 264 million. Combined non-technical earnings (mainly investment returns) of over USD 664 million were sufficient to offset the combined technical loss of USD 400 million.

AM Best notes that P&I clubs tend to have a higher appetite for investment risk than other non-life commercial insurers, with members taking a long-term approach to investment earnings. Many seem willing to tolerate year-on-year volatility. Overall, the proportion of investments allocated to equities (including mutual funds) is fairly stable, standing at approximately 17% at year-end February 2020 (see **Exhibit 4**).

Investment strategies diverge significantly across the International Group. For instance, the American Club has a relatively high appetite for equities whereas Japan P&I Club's investment portfolio consists almost entirely of cash and fixed-income securities.

After the 2019/20 year, which was characterised by high investment returns, 2020/21 was a more challenging investment year for the clubs. Equity markets suffered large losses at the start of the pandemic, but the upturn later in the year led to recoveries in the clubs' investment portfolios and it is likely that the majority will report positive investment returns for the year, albeit lower than for 2019/20.

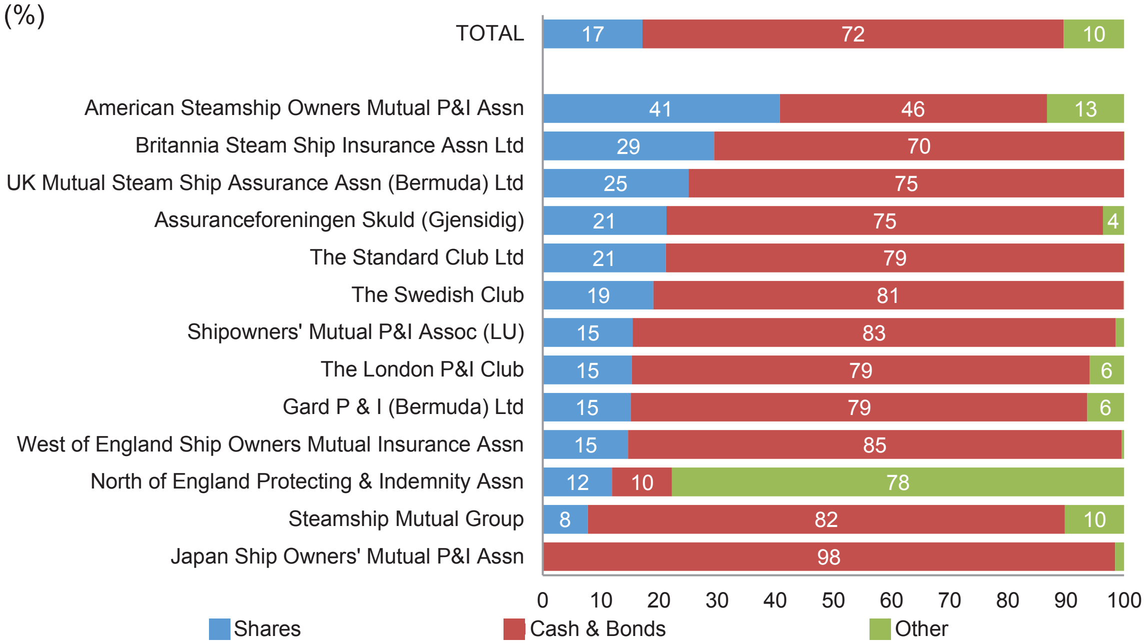
Going forward, earnings are likely to continue to be affected by equity market volatility, with near-term returns remaining constrained by the prevailing low-interest rate environment as fixed-income securities and cash account for more than 70% of the clubs' investments.

Fixed-Premium Offerings – An Ongoing Source of Competition and Diversification

The mutual market continues to face competition from commercial insurers providing fixed-premium cover. The main direct market participants are British Marine, owned by QBE, and MS Amlin, part of the MS&AD insurance group (whose P&I offering was formerly branded Raetsmarine). Both offer limits up to USD 1 billion.

Over recent years, a number of managing general agencies (MGAs) have ceased their activities due to the challenging market conditions. Others, like Thomas Miller Specialty, which is backed by capacity from AIG and Lloyd's, have taken advantage of the situation and expanded their presence in the fixed-premium space through acquisitions of books from ceased MGAs.

Exhibit 4
P&I Clubs – Investment Split 2019/20
(%)



Source: BESTLINK Best's Financial Suite – Global, AM Best data and research

In response to the fixed-premium offerings by commercial insurers and MGAs, the majority of clubs in the International Group introduced their own fixed-premium covers, usually targeted at smaller ships. The importance of such offerings to an individual club largely depends on the ship size segment in which it operates. The fixed-premium segment is important to Shipowners' Mutual P&I Association (Shipowners), which focuses on providing cover to owners of smaller and specialist vessels. The North of England Protecting & Indemnity Association Limited (North P&I Club) uses its subsidiary, Sunderland Marine, to offer a fixed-premium P&I product.

Fixed-premium cover is an attractive alternative for small vessel owners that do not require high limits and do not want to be exposed to the possibility of supplementary calls. However, the traditional mutual P&I cover offered by the International Group remains the preferred choice for large vessels operating internationally due to the high limits available and the ability of clubs to issue "Blue Cards". These certificates provide a guarantee that ship-owners have adequate insurance in place (a condition of port entry), relieving them from additional local requirements.

Risk Diversification

Offering fixed-premium cover is one example of P&I clubs diversifying into risks that are not covered by the International Group's Pooling Agreement. A range of business models is evident within the International Group, with some clubs like Gard and Swedish Club writing substantial hull and energy (H&E) books, and others, such as the London P&I Club, Japan P&I Club, Shipowners' and Steamship Mutual taking a more cautious approach to diversification.

AM Best notes that business diversification can be beneficial to the stability of overall technical earnings. In years when the P&I account performs poorly, good results from the H&E account can compensate (and vice versa). Being able to offer a broader range of products can also enhance relationships with brokers and clients. However, expansion outside mutual P&I business can put member capital at risk if growth is not accompanied by a prudent approach to underwriting and has not always been successful.

For example, Skuld and The Standard Club set up Lloyd's syndicates in 2010 and 2015 respectively. Performance from inception was disappointing and both syndicates entered run-off in 2019. In 2020, Skuld agreed the sale of the syndicate to a run-off provider, The RiverStone Group.

Stable Reinsurance Renewal

Overall, clubs in the International Group cede around 27% of premiums written. As part of the International Group pooling arrangement, participating clubs mutually reinsure one another by sharing claims in excess of USD 10 million. Additionally, the group buys reinsurance cover up to USD 3.1 billion in the open market. By negotiating as a group, the clubs are able to achieve better terms on their reinsurance protection than would be possible on an individual basis.

Expiring layers of the International Group's general excess of loss (GXL) reinsurance contract for the 2021/22 policy year were renewed with rates for shipowners increasing by an average of 1.4% year-on-year (only for the layers renewed). The majority of the programme renewed last year with a two-year placement so was not up for renewal this year.

Both the individual club retention and attachment point of the GXL contract remain unchanged at USD 10 million and USD 100 million, respectively. The upper limit of the GXL programme, as well as the capacity of the overspill protection, also remain unchanged.

Changes made to the International Group's reinsurance programme in recent renewals (in particular in 2018/19 and 2019/20) have increased individual clubs' risk retention, either directly through their 7.5% participation in the upper pool layer, or else indirectly with the group's captive, Hydra Insurance Company Limited (Hydra), reinsuring the balance. Although the increase in risk retention is understandable as free reserves are at a strong level, AM Best notes that it is likely to increase the volatility of underwriting earnings.

Individual clubs continue to purchase their own reinsurance protection to cover claims below their USD 10 million retention. The level of protection purchased depends on each club's risk appetite, and is influenced by the size of its capital base and its ability to absorb large losses.

Concerned by the exposure to systemic risks, reinsurers have sought to introduce pandemic exclusions into many reinsurance contracts at the 2020 renewal, and have introduced cyber exclusions in an attempt to avoid silent cyber coverage. Whether this general trend will extend to marine – and in particular whether reinsurers will seek to introduce such exclusions into the GXL when it is up for renewal in 2022 - is not yet known. Currently, the clubs' primary coverage and the GXL do not exclude otherwise insured events if the cause of such events were a pandemic or cyber attack (other than when a cyber attack constitutes a type of war risk).

Brexit Bringing Organisational Changes

UK-domiciled P&I clubs have historically used the European Economic Area's (EEA) passporting system to conduct cross-border business throughout the region. However, passporting rights for UK-domiciled clubs ceased at the end of the Brexit transition period on 31 December 2020.

The six UK-domiciled clubs had made arrangements ahead of this deadline by establishing EU-based subsidiaries to ensure that they could continue to serve their EEA members:

- Ireland: The North P&I Club and The Standard Club
- The Netherlands: UK Mutual Steam Ship Assurance Association (UK P&I Club)
- Cyprus: Steamship Mutual Underwriting Association Limited (Steamship Mutual P&I Club) and London Steamship Owners Mutual Insurance Association Ltd (The London P&I Club)
- Luxembourg: The Britannia Steam Ship Insurance Association (Britannia P&I)

In addition, Britannia P&I is in the process of redomiciling its operation from the UK to its Luxembourg entity by means of a transfer of all of the UK entity's insurance liabilities, after which the UK entity will cease writing insurance business. The transfer will be effective on 20 February 2021, subject to court approval.

Capitalisation Continues at Strong Levels

The clubs entered the 2020/21 year with a very high level of free reserves (second highest ever) (see **Exhibit 5**), following the positive operating results reported by most clubs in 2019/2020. Regulatory solvency ratios were strong and the majority of the clubs had robust capital buffers (see **Exhibits 6 and 7**).

AM Best expects the clubs to report an overall decrease in free reserves during fiscal year 2020/21, with technical losses likely to be only partially offset by modest investment earnings (assuming the absence of large movements in equity markets in February). Risk-adjusted capitalisation is expected to remain strong, demonstrating the clubs' resilience in a difficult year.

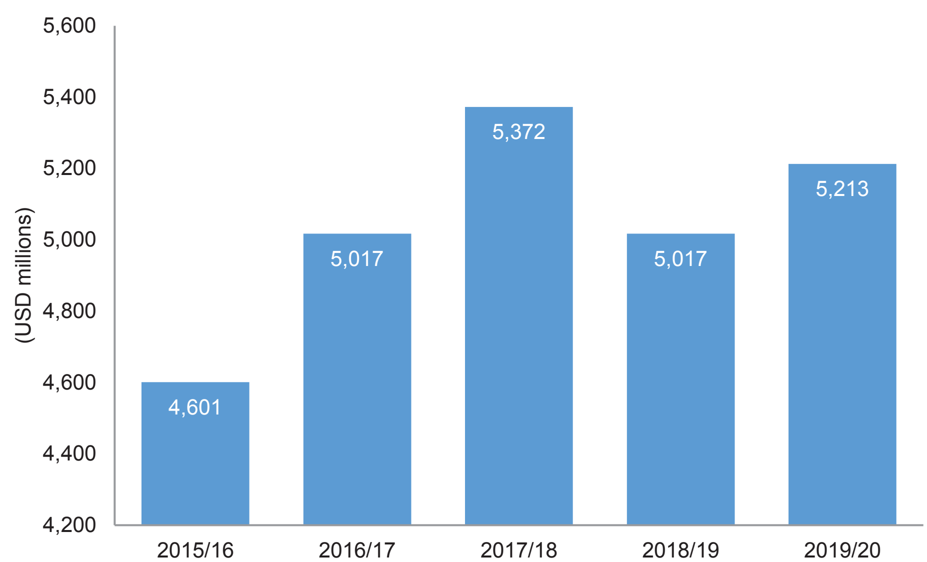
Encouraged by the implementation of the Solvency II regime, P&I clubs have improved their understanding of their risk-based capitalisation, and now have a better insight into the impact that different realistic scenarios have on their capitalisation. Most have clearly defined appetites for underwriting and investment risk.

AM Best views the clearer articulation of risk appetite positively, as well as the general improvement in governance and enterprise risk management (ERM) standards throughout the International Group.

At a group level, nine of the 13 clubs report a solvency capital requirement (SCR) ratio under Solvency II.

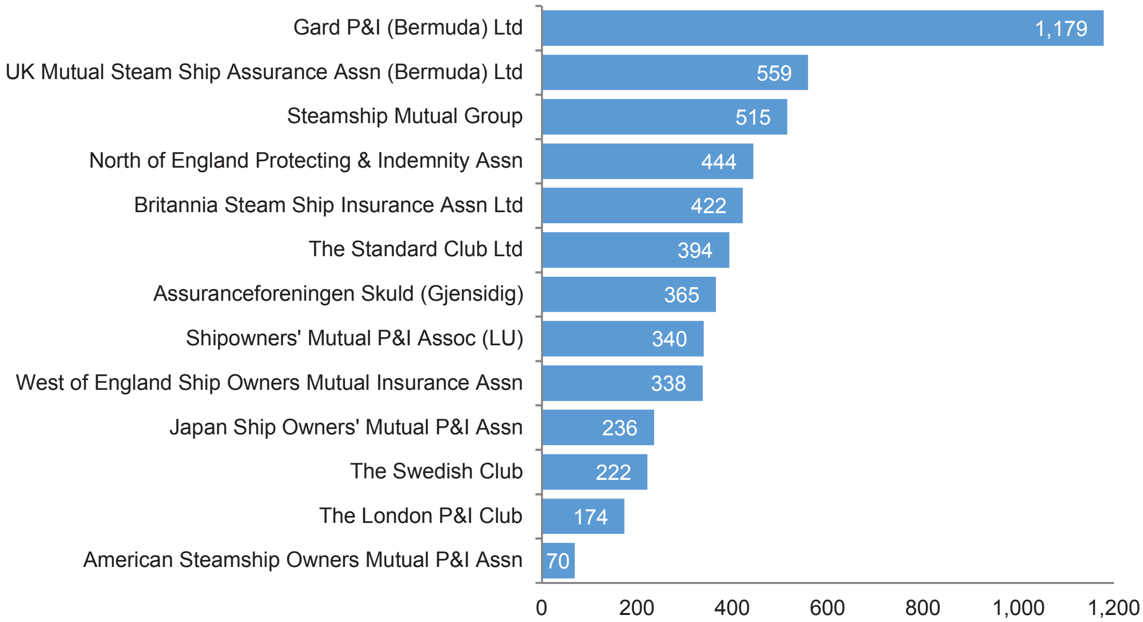
Exhibit 5

P&I Clubs – Free Reserves of the International Group



Note: Combined accounts of the 13 principal clubs of the International Group (the whole of the International Group is not captured)
Source: BESTLINK Best's Financial Suite – Global, AM Best data and research

Exhibit 6
P&I Clubs – Free Reserves by Club 2019/20
(USD millions)



Source: BESTLINK Best's Financial Suite – Global, AM Best data and research

Exhibit 7
P&I Clubs – Solvency II Key Figures, 2019/20

Company Name	Eligible Own Funds to Meet SCR (USD millions)	SCR (USD millions)	Solvency II SCR Ratio (%)
American Steamship Owners Mutual P&I Assn	N/A	N/A	N/A
Britannia Steam Ship Insurance Assn Ltd	526	261	201
Gard P&I (Bermuda) Ltd	1,344	511	263
Japan Ship Owners' Mutual P&I Assn	N/A	N/A	N/A
North of England Protecting & Indemnity Assn	261	119	219
Shipowners' Mutual P&I Assoc (LU)	381	201	190
Assuranceforeningen Skuld (Gjensidig)	513	290	177
Steamship Mutual Group	N/A	N/A	N/A
The Swedish Club	298	107	277
The London P&I Club	169	81	209
The Standard Club Ltd	N/A	N/A	N/A
UK Mutual Steam Ship Assurance Assn (Bermuda) Ltd	714	329	217
West of England Ship Owners Mutual Insurance Assn	410	176	233

Source: BESTLINK Best's Financial Suite – Global, Best's Statement File – Solvency II, AM Best data and research

At the end of the 2019/20 fiscal year, the clubs' SCR coverage ratios varied from 177% to 277%, with seven of the clubs reporting a ratio above 200% (see **Exhibit 7**). A significant contributor to these strong coverage ratios is the capital credit given to the clubs' ability to make additional calls to members.

The ability to make such calls represents a proven source of financial flexibility for the P&I clubs and is viewed as a key strength. Supplementary calls constitute tier 2 ancillary own funds under Solvency II, subject to supervisory approval, and AM Best recognises this source of contingent capital in its analysis of clubs' balance sheet strength.

However, the impact of levying such calls can be damaging to a club's relationship with its members, not least if a club is alone in levying a call or if a call is made when ship-owners face difficult economic conditions. Therefore, the clubs need to take into account the volatile nature of P&I business and their exposure to riskier asset classes, as well as their members' appetite for one-off capital contributions, when determining their target free reserve buffer over regulatory capital.

The accumulation of free reserves in recent years has strengthened clubs' overall risk-adjusted capitalisation. Nonetheless, it has also led to pressure from both their members, and from brokers acting on behalf of those members, for clubs to reduce prices. This, combined with a challenging claims environment, and in particular an increasing frequency of large claims, has eroded underwriting profitability, leading to the overall technical losses reported in 2018/19 and 2019/20, and expected for 2020/2021. The general increases announced by the majority of the clubs for the February 2021 renewal should help improve underwriting results, but AM Best expects that further general increases will be required in a year's time before the clubs return to overall technical profit.

In AM Best's view, there continues to be a buffer in current levels of capitalisation to absorb these performance pressures. However, with interest rates at historic lows and equity markets volatile, clubs need to keep their focus on underwriting discipline to ensure financial strength is maintained.

Cyber Risk and Maritime — Stormy Waters Ahead?

Cyber risk has been a prominent topic of discussion among the largest shipping companies in the wake of a series of cyber attacks in 2020.

In a bid to minimise this risk, the International Maritime Organization (IMO) released maritime cyber risk management guidelines, which came into force on January 1, 2021. These require ship-owners to demonstrate they have incorporated cyber risks into their risk management systems.

Despite the increasing exposure, P&I clubs continue to offer cyber coverage with no exclusions, as long as the cyber-attack does not constitute any type of excluded war risk. Clearly, not all maritime cyber risks are within the scope of P&I cover, as many of them do not arise from the operation of a vessel.

Clubs are well protected at the moment as the current international group reinsurance treaty, which was renewed last year, does not exclude cyber risk. However, exclusions are now common in the market, and this could be an issue of discussion for the 2022 renewal. In addition, other concerns may also arise from a club's primary retention, which is decided independently by every club.

It is likely that clubs will have to decide in the near term if they can continue to offer cyber coverage with no exclusions, even if they are not able to find protection in the reinsurance market.

Best's Market Segment Report

February 23, 2021

COVID-19 and the Russian Insurance Market: Negative Implications for Premium Growth, but Opportunities for Innovation

A post-pandemic push towards innovation is likely to have long-term positive implications for Russia's insurers

Principal Takeaways

- Russia's insurance market faced a number of challenges in 2020, mirroring the fortunes of the country's wider economy.
- While COVID-19 presented challenges to Russian insurers, it has also accelerated innovation in the market and potentially presented some longer-term growth opportunities.
- A push towards greater innovation, including online distribution, underwriting and claims handling should have long-term positive implications for the development of Russia's insurance industry.
- Life insurance could once again become the industry's growth driver due to lower interest rates in the country and improving consumer trust.

The economic hit inflicted on Russia in 2020 by the COVID-19 pandemic and a sharp decline in global oil prices filtered through to the country's insurance sector, which experienced a volatile year.

While most lines of business enjoyed premium growth in the first quarter of 2020, the second quarter saw premium income drop by around 13% year-on-year, before bouncing back somewhat with a 10% year-on-year rise in the third quarter, according to figures from the financial regulator, The Central Bank of the Russian Federation (CBR) (see **Exhibit 1**). Total premium for the first nine months of 2020 was up 3% on the same period the previous year.

The insurance industry's challenges mirrored the experience of the wider Russian economy. At the beginning of 2020, the Russian Ministry of Economic Development was projecting annual gross domestic product (GDP) growth of 1.7%, with inflation at 3.0%. However, the Russian economy suffered in the wake of the restrictions brought on by the COVID-19 pandemic and the sharp decline in oil prices, prompting the ministry to revise its estimates downwards to an annual GDP contraction of 3.8%, followed by a predicted 3.3% growth in 2021. The global economy, by comparison, is expected to shrink by 4.3% in 2020 and recover by 4.0% in 2021, according to the World Bank.

Although Russian insurers' top lines have felt the impact of lower non-life premium income, the response of life insurance policyholders to the country's low interest environment has more than mitigated it. Overall, premiums were up 3% in 2020.

Savers in Russia looking for an alternative to low-yield bank deposits have turned to insurance companies' savings and investment life products. In addition, an uptick in bank lending in the third quarter of 2020 contributed to a surge in demand for life and accident covers from borrowers and mortgage holders.

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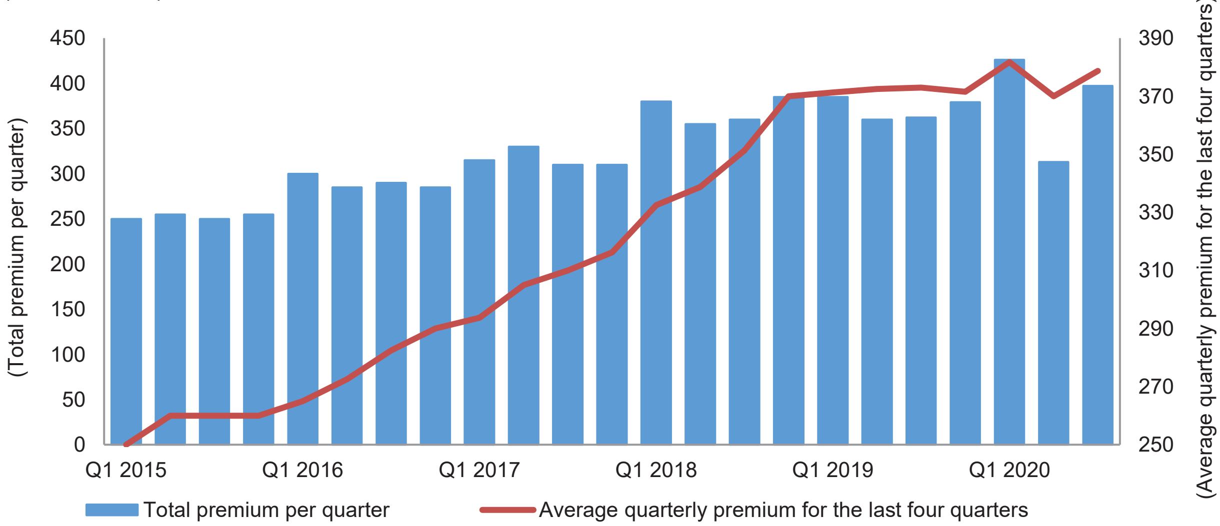
2021-032

Exhibit 1

Russia – Total Gross Written Premium per Quarter and Average Premium per Quarter for the last Four Quarters

(RUB billions)



Source: Central Bank of the Russian Federation

Underwriting Profitability Improves on Lower Claims

Russian insurers' underwriting profitability in 2020 benefited from reduced claims in lines such as motor and medical insurance, due to travel restrictions and lower utilisation. In motor, the lower number of road accidents outweighed the pressure on premium growth. Russian insurers were left largely unaffected by the type of COVID-19-related business interruption (BI) claims that weighed on the bottom lines of some of their peers in Europe. Such policies in Russia typically require a physical damage trigger, or have a relatively low sublimit.

In addition, insurers in Russia are not expected to incur significant COVID-19 claims on their medical books, as the expenses for testing and treatment are covered by the Russian state via the compulsory medical insurance programme.

In terms of non-technical performance, the impact of the COVID-19 pandemic on Russian insurers' investment income was mixed. The volatile performance of debt and capital markets caused changes in the composition of investment portfolios and significantly reduced investment returns in the second quarter of 2020.

At the same time, although the market value of some equities decreased, in general the drop in interest rates during 2020 increased the valuation of fixed-income instruments. This benefited non-life writers whose investment portfolios are dominated by bonds. Insurers with assets denominated in foreign currency realised foreign exchange gains due the rouble's depreciation relative to the US dollar between March and June 2020.

The three lines of business most affected by COVID-19 in 2020 were medical, life and motor insurance. However, while the pandemic has presented challenges to these lines, it has also accelerated innovation in the market and potentially presented some longer-term growth opportunities.

Medical Insurance: COVID-19 Caused a Temporary Drop in Premiums, but will Likely Fuel Higher Demand in the Future

The impact of the COVID-19 pandemic on the medical insurance segment in Russia is not straightforward. Voluntary medical insurance (VMI) premiums are expected to have declined during 2020, although a larger decline is likely to be experienced in 2021 as most of these policies are renewed in the first quarter.

A substantial drop in VMI premiums in the second and the third quarters of 2020 was largely the result of some organisations stopping the provision of this employee benefit to their staff in a bid to cut expenses. In addition, a number of small to medium-sized enterprises were forced to close. Similarly, a number of individuals that saw a reduction in their disposable income during the year chose not to renew their VMI policies.

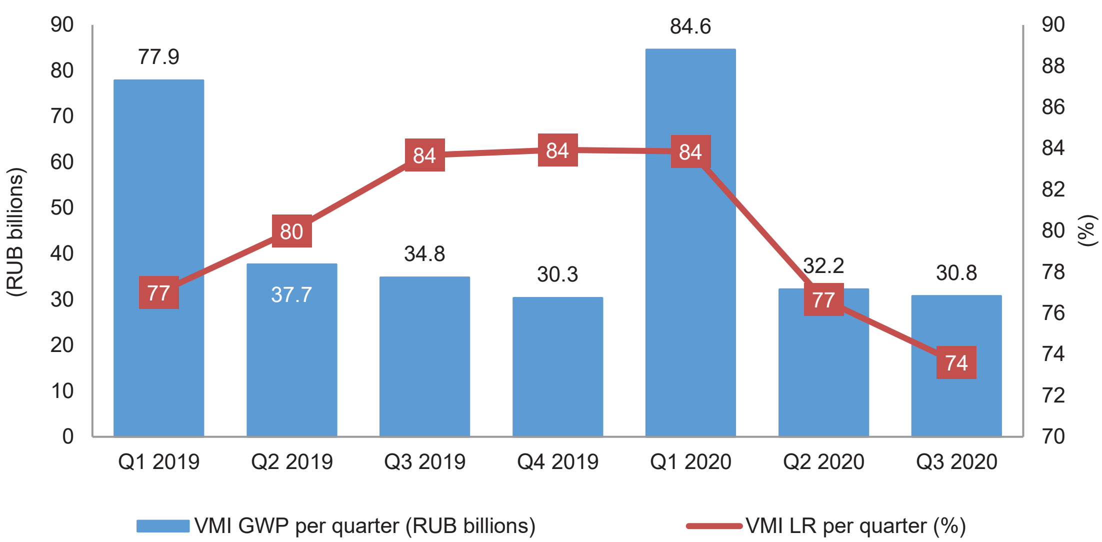
In spite of lower premium income, the medical insurance segment is expected to deliver strong results in 2020 based on the downwards trend in the loss ratio in the second and the third quarters of the year (see **Exhibit *2***). However, there is likely to be a catch-up of claims in 2021 as non-urgent medical treatments that were postponed will be carried out. This, combined with the expectation of lower revenue, could put pressure on VMI profitability in 2021.

It is yet to be seen whether demand for VMI products will pick up post 2021 as the Russian economy recovers, but there is a strong evidence that the impact of the pandemic has led to a higher awareness among the population of the importance of having access to good quality medical care.

Across different markets, AM Best has observed an increased use of telemedicine, wearables and various wellness programmes in medical insurance since the pandemic started. Some Russian insurers are using similar tools to improve their risk selection and to incentivise their customers. In addition, insurers have accelerated sales of so-called "box products" during the pandemic. These are standardised insurance policies with limited underwriting

Exhibit 2

Russia – Voluntary Medical Insurance – Gross Written Premium and Loss Ratio, 2019-Q3 2020



Source: Central Bank of the Russian Federation variables and fixed deductibles, which are more affordably priced. Finally, some of the bigger insurance companies have put more emphasis on utilising their own clinics. This improves cost efficiency and aims to ensure that policyholders receive high quality and timely medical services. Higher demand for medical insurance from customers in the longer term and the insurers' investments into product design and technology should accelerate innovation across the market.

Life Insurance Segment Could Become the Market's Key Growth Driver Again

The Russian life insurance segment mainly consists of two types of product: savings life insurance and investment life.

Savings life insurance may also include accident, disability and health cover. Because assets are invested conservatively, products typically provide low – if any – investment return. Investment life typically guarantees the principal invested (and sometimes a certain interest rate) and usually generates higher investment returns. Additional life cover may be included in the product.

Following a sharp decline in the second quarter of 2020, premium volumes in life insurance recovered in the third quarter. The rebound was supported by increased demand for alternative investment solutions amid the continued reduction of the CBR's key rate through 2020 (4.25% as at 31 January, 2021 compared with 6.0% as at February 2020) which lead to lower returns on bank deposits. At the same time, there was an increase in loans and mortgages taken out by people attracted by record low interest rates, which in turn boosted sales of credit life insurance.

Also in 2020, life insurance products fell under the auspices of the CBR's financial guarantee scheme. This has made these products more attractive for customers as their funds are now legally protected in the event that the insurance company defaults.

In recent years, the regulator has taken significant steps to increase public trust in life products, including by tackling mis-selling practices. While there is more work to be done in this respect, the lower number of complaints recorded by the CBR in the first nine months of 2020 indicates there has been some improvement.

Stricter transparency requirements by the regulator led to a reduction in life insurance premiums in 2019 (excluding life insurance for borrowers). However, given the progress achieved in 2020, higher consumer confidence, combined with the lower interest rate environment and increased lending, is likely to lead to a higher demand for life products in the future.

As a result, the life segment could once again prove to be the key growth driver of the Russian insurance market (see **Exhibit 3** for premium development in life insurance in recent years).

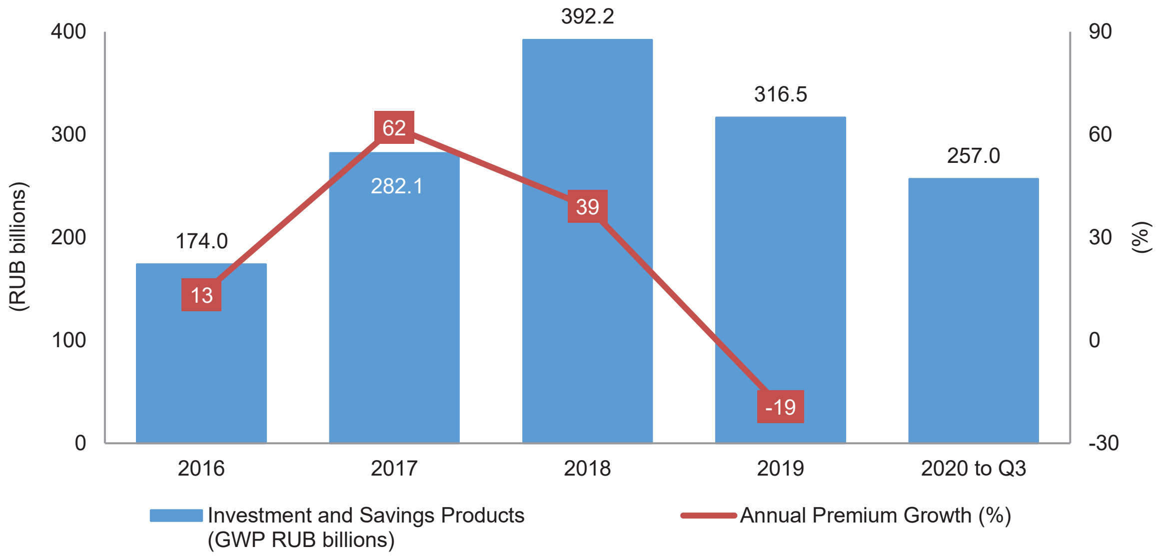
Motor Insurance: High Competition Will Pressure Profitability, Unless Insurers Maintain Underwriting Discipline and Develop Alternative Distribution Methods

For the motor segment, the consequences of the COVID-19 pandemic were broadly positive with lower claims frequency offsetting the impact of higher claims costs.

Although the Russian authorities implemented widespread lockdowns to tackle the pandemic during the second quarter of 2020, the compulsory nature of motor third-party liability (MTPL) cover meant many motor insurers did not experience a significant drop in premium. Official efforts to reduce the number of uninsured vehicles also helped bolster motor premium volume.

Exhibit 3

Russia – Life Insurance – Investment and Savings Products – Gross Written Premium and Premium Growth, 2016-2020 Q3



Source: Central Bank of the Russian Federation

The number of new contracts for the first nine months of 2020 was approximately 5% higher compared with the same period in 2019, and premium volumes increased by more than 6%, according to the CBR. However, the ongoing liberalisation of regulatory tariffs, whereby insurers have greater freedom to set MTPL prices that are more in line with the risk profile of their customers, is likely to drive down overall premium rates in the future as more insurers are willing to offer discounts to drivers with good claims histories in an effort to attract and retain customers.

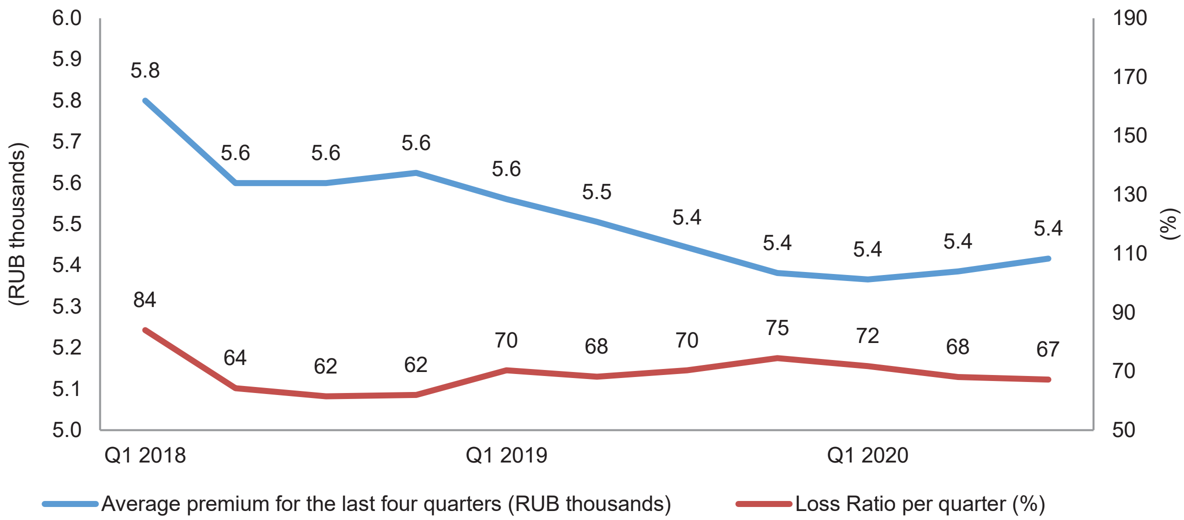
The formal roll-out of the CBR's online consumer price comparison project – a part of its Marketplace initiative – where customers can compare insurers' prices and purchase their MTPL policies, is likely to further increase price-based competition in the sector.

In the third quarter of 2020, the average claims payment on MTPL increased by about 28% year-on-year, although there was an overall reduction in the number of settled insurance claims resulting from still lower than usual traffic due to COVID-19 restrictions. One of the reasons for this was an upward revision of the cost of spare parts following the September 2020 update of the reference book of the Russian Association of Motor Insurers.

AM Best believes that further tariff liberalisation, higher competition in the market and the higher cost of claims are all likely to put pressure on the profitability of MTPL when driving patterns normalise. According to the CBR, the segment's combined ratio has been below 100% during 2019 and 2020, with loss ratios maintained at a good level (see **Exhibit** 4), therefore there is some room for deterioration. Nonetheless, in AM Best's opinion, it is important that insurers maintain their underwriting discipline and carefully manage their growth in the segment so that losses do not spiral out of control.

Unlike compulsory MTPL, the motor hull insurance segment is more dependent on consumer behaviour whose dynamics can be illustrated by the volume of new car sales as well as the

Exhibit 4
Russia – Compulsory Motor Third-Party Liability –
Average Premium and Loss Ratio per Quarter, 2018-2020 Q3



Source: Central Bank of the Russian Federation

voluntary nature of these products. According to the Association of European Businesses (AEB), in the first 11 months of 2020, new car sales in Russia contracted by 11% compared with the same period in 2019. Nonetheless, increased credit activity in the third quarter of the year helped to maintain premium volumes, which rose by about 1% for the nine months of 2020, compared with the same period in the prior year. It is expected that in order to stimulate the demand in 2021, insurers will continue to modify their products by excluding some risks and offering higher deductibles — which will allow insurers to sell policies at more attractive prices.

AM Best notes that some motor writers in Russia have sought innovative ways to retain their customers during the pandemic. For example, some companies reportedly allowed policyholders to pay premiums using accumulated loyalty bonuses, or else provided more flexibility to their customers with premium payment terms.

COVID-19 to Accelerate Innovation and Digitalisation Across the Market

While the COVID-19 pandemic presented challenges for Russian insurers in respect of both the asset and liability sides of their balance sheets, it also highlighted the increasingly important role of innovation and digitalisation in the industry.

Prior to the pandemic, a number of insurance companies were already investing in developing platforms or applications enabling online sales and other remote services.

However, the sudden need to work remotely caught some of these insurers by surprise as they were still rolling out their digital platforms. In a number of instances, insurers found that the only way to reach their customers was through online bancassurance platforms operated by the banking sector. However, this route to market came at the expense of higher commissions that insurers had to pay to these intermediaries.

AM Best notes that another downside associated with a heavy reliance on distribution through the banking channel is the risk of lower client retention if consumers no longer associate the cover they purchase with a particular insurance brand. This emphasises the importance of insurers developing in-house digital capabilities.

Other insurers with more advanced IT solutions were able to continue to sell their policies online without major disruptions and to increase the use of this channel. The CBR noted that in the second quarter of 2020, the overall share of internet policy sales increased by 0.8 percentage points compared with the same period in the prior year, to 5.9% of written premiums. Traditionally, most of the online sales are attributable to MTPL and travel insurance, whereas other lines such as motor hull and property are still gaining share. Nonetheless, the regulator also reported that in the third quarter of 2020, the share of segments excluding MTPL in overall online sales, increased by 2.2 percentage points year on year, to 15.5%.

In terms of service, insurers have generally stood by their customers' side during the pandemic in order to maintain their loyalty. In particular, some Russian insurers reportedly returned part of their premiums to policyholders in cases where insurance policies were not used during the year, for example, in travel insurance.

AM Best believes that the overall push towards innovation, driven by a shift in customer behaviour and expectations post-pandemic, is likely to lead to some Russian insurers reviewing their business models, making them more suitable for online services, not only in distribution but also with respect to underwriting and claims handling. This is likely to have long-term positive implications for the development of the industry.

Exhibit 5
Russia – AM Best-Rated Companies
Ratings as of February 4, 2021

AMB #	Company Name	Best's Long-Term Issuer Credit Rating (ICR)	Best's Financial Strength Rating (FSR)	Best's ICR & FSR Action	Best's ICR & FSR Outlook	Rating Effective Date
71975	GIC Perestrakhovanie LLC	bbb	B++	Assigned	Stable	4-Dec-20
86892	Ingosstrakh Insurance Co.PJSC	bbb	B++	Affirmed	Stable	7-Aug-20
78919	Insurance Company of Gaz Industry SOGAZ	bbb	B++	Affirmed	Stable	30-Jul-20
78871	Russian Reinsurance Co. JSC	bb+	B	Affirmed	Stable	23-Jul-20

Source: BESTLINK *Best's Financial Suite - Global* , AM Best data and research

Best's Market Segment Report

February 17, 2021

Market Segment Outlook: US Title Insurance

Our outlook is going to Stable from Negative, owing to the segment's exceptional performance in 2020

The title insurance industry performed exceptionally well in 2020 and was the most profitable segment in the property/casualty industry, despite the pandemic and all of its inherent challenges. AM Best expects this trend will continue during the next 12 months albeit at perhaps a slower pace and is therefore revising its outlook for the US title segment to Stable from Negative. The industry proved to be far more resilient than anticipated in the wake of the sudden economic slowdown and lockdowns brought about by the COVID-19 pandemic.

The outlook for the title segment had been revised to Negative from Stable on April 7, 2020, prompted by the sudden and substantial economic slowdown in the US as a result of the pandemic. The change to Negative was also due to questions about whether the US economy would be thrown into an extended recession owing to lockdown measures, business closures, tighter labor markets, and rising unemployment levels.

The change to Stable takes into account the Federal Reserve's decision in 2020 to cut the federal funds rate by 150 basis points, effectively bringing the rate to zero, as well as its decision to purchase assets in the open markets, including mortgage-backed securities. These two decisions lowered interest rates and brought the 30-year fixed mortgage rates down to near historical lows, which should continue to fuel real estate sales and refinancing activity in the real estate markets—and further the business activities of title insurers.

Low interest rates accelerated the level of refinancing activity through the first quarter of 2020. However, with the start of the pandemic, there was much uncertainty and skepticism as to whether this pace would continue. With the pandemic under way, AM Best believed that the economic slowdown and its impact on small business, housing, lending, and consumer confidence would temper refinancing activity through the remainder of the year. These same economic constraints, along with a presumed change in people's behavior, were expected to negatively affect both commercial and residential real estate transactions and dampen revenue prospects for US title insurers. However, just the opposite occurred, as refinancing and home buying surged in the latter half of 2020.

With 30-year mortgages at or below 3% for the first time, new and existing homebuyers were flooding the markets, looking to take advantage of historically low mortgage rates. This was evidenced by record refinancing activity during the year and 2020 being one of the most active years in home sales in recent memory.

In March and April 2020, the impact of the COVID-19 pandemic was felt by all companies in the P/C insurance industry, due to temporary investment impairment, business closures, requirements for social distancing and other restrictive ordinances required by federal and state regulations. However, for the title insurers, advancements in digitization and technology, including online notorizations, played key roles in keeping the deal flow and business pipeline moving. The ability to interface with lenders and agents proved to be crucial in allowing title insurers to keep pace with the record number of closings during the year, all while following the COVID-19 guidelines.

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2021-030

AM Best's Market Segment Outlooks

Our market segment outlooks examine the impact of current trends on companies operating in particular segments of the insurance industry over the next 12 months. Typical factors we would consider include current and forecast economic conditions; the regulatory environment and potential changes; emerging product developments; and competitive issues that could impact the success of these companies. Best's ratings take into account the manner in which companies manage these factors and trends.

A Best's Market Segment Outlook, like a Best's Credit Rating Outlook for a company, can be Positive, Negative, or Stable.

- A Positive market segment outlook indicates that AM Best expects market trends to have a positive influence on companies operating in the market over the next 12 months. However, a Positive outlook for a particular market segment does *not* mean that the outlook for all the companies operating in that market segment will be Positive.
- A Negative market segment outlook indicates that AM Best expects market trends to have a negative influence on companies operating in the market over the next 12 months. However, a Negative outlook for a particular market segment does *not* mean that the outlook for all the companies operating in that market segment will be Negative.
- A Stable market segment outlook indicates that AM Best expects market trends to have a neutral influence on companies operating in that market segment over the next 12 months.

We update our market segment outlooks annually, but may revisit them at any time during the year if regulatory, financial, or market conditions warrant.

With the Biden administration's initiatives set to address the economy and the pandemic in an organized manner, there is hope that the unemployment rate will fall further and that the US economy will return to a more solid footing. The availability of a number of COVID-19 vaccines and the administration's goal to vaccinate more than 100 million individuals through the first half of 2021 fosters hope of a return to normalcy.

Because of these factors, we expect the residential real estate market to remain strong in 2021. Default levels should not be elevated, as in the housing crisis of 2007-2009, given that homeowners today have more equity in their homes. Nor are foreclosures expected to cause major disruptions, owing to enhanced provisions contained in the various stimulus packages passed by or proposed by Congress.

AM Best also expects US monetary policy to remain accommodative through 2021 and beyond, resulting in a prolonged low interest rate environment. Low rates will support home purchases and refinancing, although the number of refinancings will likely be down from the historical levels of 2020. Sales of single-family homes will likely continue to rise through year-end 2022, while refinancing is expected to revert to "normal" levels. Given the lack of supply, we expect new construction of single-family homes to rise and to continue do so through year-end 2022, driven primarily by relocations and millennials entering the housing market. New construction of multifamily residential homes is likely to average a third of new single-family construction, while the commercial market and construction may remain tepid compared with residential market.

Best's Market Segment Report

February 18, 2021

Market Segment Outlook: US Excess & Surplus Lines Insurance

We are revising our Negative outlook to Stable as the E&S segment continues to successfully navigate COVID-19

AM Best is revising its outlook for the excess and surplus lines market segment to Stable from Negative. This change captures insurance industry dynamics that provide benefits specific to surplus lines carriers. Despite the widespread impact of COVID-19 on the US economy, and uncertainty as to how long the pandemic will last, the E&S segment's ongoing profitability and premium growth signal opportunities for surplus lines carriers to successfully operate.

Surplus lines carriers are not immune to the worldwide declines in economic activity. Still, the segment's profitability and growth highlight the subdued impact of the pandemic on the surplus lines companies. Economic ingenuity has minimized the decline in demand for customized coverage for new, unique, high capacity, or distressed risks. Businesses pivoted to strategies to remain open and continue servicing their customers, leading to a persistent need for insurance capacity. In addition, and perhaps surprisingly, data shows a fair amount of new business formation over the last year. Since we last updated our outlook, the surplus lines carriers have generated consistent underwriting cash flow, experienced stability in claims activity, and successfully managed the challenges of investment market conditions. These factors have moderated concerns about the cohesion of the surplus lines market.

The ability to structure bespoke terms and conditions favors clearly defined coverage exclusions while being a layer of protection against claims under pandemic conditions. This quality has provided a layer of insulation for surplus lines markets, though the depth of this protection faces the same coverage creep threats as the overall insurance industry.

Adequate rate-setting ability under the rate freedoms provided by the surplus lines markets provides a pricing advantage, as the premium volume reported through surplus lines stamping offices across the country shows. The ability to align rates charged with insured risks has favored this market since 2019. Even in the pandemic environment, accounts continue to go to market as both standard and non-standard carriers look to improve underwriting performance. The apparent incongruence of the Stable outlook with the Negative outlooks for the other commercial lines is largely offset by the intricacies of the surplus lines markets, notably its position as a relief valve for the standard markets.

Market participant growth is an encouraging sign for the segment. Newcomers, along with a recommitment from existing participants, show a healthy interest in the specialty commercial market. That capacity will remain stable and could even expand in the short term. Potential headwinds for the market include the impact of social inflation on casualty claims, as well as the possibility of a sudden increase in market capacity to disrupt currently favorable market conditions.

Throughout 2020 and into 2021, market indicators validated the viability of surplus lines organizations. Their continued commitment to core competencies and their track record during challenging conditions ensure that their foundational benefits remain strong, as society continues to navigate the pandemic conditions. AM Best believes the surplus lines segment will continue to record stable results this year.

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2021-042

AM Best's Market Segment Outlooks

Our market segment outlooks examine the impact of current trends on companies operating in particular segments of the insurance industry over the next 12 months. Typical factors we would consider include current and forecast economic conditions; the regulatory environment and potential changes; emerging product developments; and competitive issues that could impact the success of these companies. Best's ratings take into account the manner in which companies manage these factors and trends.

A Best's Market Segment Outlook, like a Best's Credit Rating Outlook for a company, can be Positive, Negative, or Stable.

- A Positive market segment outlook indicates that AM Best expects market trends to have a positive influence on companies operating in the market over the next 12 months. However, a Positive outlook for a particular market segment does *not* mean that the outlook for all the companies operating in that market segment will be Positive.
- A Negative market segment outlook indicates that AM Best expects market trends to have a negative influence on companies operating in the market over the next 12 months. However, a Negative outlook for a particular market segment does *not* mean that the outlook for all the companies operating in that market segment will be Negative.
- A Stable market segment outlook indicates that AM Best expects market trends to have a neutral influence on companies operating in that market segment over the next 12 months.

We update our market segment outlooks annually, but may revisit them at any time during the year if regulatory, financial, or market conditions warrant.

February 19, 2021

Potential Record Catastrophe Losses for Texas Insurers Due to Winter Storm Uri

This storm could be the key driver of record first-quarter insured property catastrophe losses for the P/C industry

Principal Takeaways

- AM Best believes the heaviest volume of claims will be in the homeowners, commercial property, and auto lines of business.
- The surge in demand for contractors and construction materials will be a significant contributor to the losses.
- P/C insurers will have to re-evaluate their catastrophe loads due to the unexpected first-quarter catastrophe.

Texas has faced record-low temperatures this February, with areas of the state (as well as parts of Louisiana and Alabama) being particularly hard hit by a massive winter storm that barreled through the middle of the country. "Winter Storm Uri" dumped several inches of snow throughout the state along with freezing rain, leaving roads in many areas impassable because they are covered by a layer of ice. The severe weather has affected more than 100 million Americans, as snow fell in some of the hardest-hit areas in Texas.

The state's electric grid operator, the Electric Reliability Council of Texas (ERCOT) lost control of the power supply, leaving millions without access to electricity. Blackouts, including controlled outages initiated by ERCOT, have now extended from hours to days, with neighborhoods throughout the state going cold and dark. Grid operators have stated that Texas' electrical system was, at points, "seconds or minutes" from collapsing, and the controlled outages were the only choice left because a true blackout could have left the entire state without power for possibly months. Although power has been restored to millions in Texas, 13 million—nearly half of state residents—don't have access to clean, running water.

This severe weather event has created significant challenges—immediate health and shelter concerns—and additional near-term challenges for homeowners, property owners, and businesses, which could pose considerable difficulties for personal and commercial lines insurers servicing Texas residents and businesses. Texas accounts for a significant percentage of US total direct premiums written for the lines of coverage likely to be most affected by insured losses from this event (**Exhibit 1**). Some insurance industry observers expect insured losses for US P/C insurers in many billions of dollars.

Exhibit 1
Texas % of Total US DPW for Most Likely Affected Lines of Coverage

	(%)
Homeowners/Farmowners Multiperil	9.7
Auto Physical Damage	10.1
Fire & Allied Lines	11.1
Commercial Multiperil	7.7

Severe Impact on Homeowners and Farmowners Multiperil Insurers …

AM Best believes the heaviest volume of claims will be in the homeowners, commercial property, and auto lines of business. Of the insurance companies with the highest concentration of their homeowners and farmowners multiperil portfolios in the state of Texas, 41 write

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Exhibit 2
Homeowners/Farmowners Multiperil Companies with Large Concentrations in Texas

Ranked by 2019 Texas Homeowners/Farmowners Multiperil DPW as a % of Total Company Homeowners/Farmowners DPW
(Minimum 50% Share of Company DPW Comprised of Texas Homeowners/Farmowners DPW)
($ thousands)

AMB #	Company Name	Texas	US	Texas % of US
001767	State Farm Lloyds	1,900,767	1,900,767	100.0
003312	Texas Farmers Insurance Company	855,383	855,383	100.0
010678	Allstate Texas Lloyd's	325,343	325,343	100.0
004359	Texas Farm Bureau Underwriters	263,150	263,150	100.0
000892	Texas Farm Bureau Mutual Insurance Co	201,011	201,011	100.0
003566	Chubb Lloyds Insurance Company of Texas	177,746	177,746	100.0
001753	Foremost Lloyds of Texas	86,139	86,139	100.0
001743	Travelers Lloyds of Texas Insurance Co	85,095	85,095	100.0
011417	Metropolitan Lloyds Ins Co of Texas	76,479	76,479	100.0
012703	Texas FAIR Plan Association	53,217	53,217	100.0
012339	Auto Club Indemnity Company	142,033	142,056	100.0
012421	ASI Lloyds	227,903	243,342	93.7
013125	Homeowners of America Insurance Co	149,755	168,858	88.7
022605	Allied Trust Insurance Company	69,850	87,797	79.6
010681	State National Insurance Company, Inc.	65,851	90,595	72.7
003333	Meridian Security Insurance Company	118,670	169,992	69.8
003652	Allstate Fire and Casualty Insurance Co	118,054	193,154	61.1
022327	Clear Blue Insurance Company	87,876	147,163	59.7
012053	Safeco Insurance Company of Indiana	314,609	594,007	53.0
022321	Spinnaker Insurance Company	102,536	196,131	52.3

Source: AM Best data and research

more than $50 million in direct premium for these two lines. For 20 of these companies, Texas portfolios account for more than 50% of their total homeowners and farmowners premiums in the US, as **Exhibit 2** shows. Some of the listed insurers are part of the industry's largest organizations (such as State Farm and Allstate); others are smaller carriers whose profitability is likely to be more acutely impacted by losses, depending on the adequacy of their reinsurance coverage.

Property damage both inside and outside of homes is expected to result from snow and ice on the exterior of buildings. Water damage caused by frozen and broken water pipes and water tanks will present additional difficulties that could even lead to flooding inside properties. The potential volume of claims is likely to cause a significant surge in demand for plumbers and other contractors, which could spike insurers' loss adjustment expenses. As these professionals and others are inundated with service requests to help repair property damage, costs associated with labor and materials will be likely to rise, driving up the loss costs for insurers. Depending on policy coverage terms, homeowners insurers may also be on the hook for hotel costs and additional living expenses for families that need shelter while their homes are uninhabitable due to cold temperatures.

Exhibit 3
Commercial Multiperil Property Insurers with Large Concentrations in Texas

Ranked by 2019 Texas CMP Property DPW as a % of Total Company CMP Property DPW
(Minumum 50% Share of Company DPW Comprised of Texas CMP Multiperil DPW)
($ thousands)

AMB #	Company Name	Texas	US	Texas % of US
001767	State Farm Lloyds	70,626	70,626	100.0
001734	The Hanover Casualty Company	29,003	29,003	100.0
002614	Hartford Lloyd's Insurance Company	22,611	22,611	100.0
012570	Insurors Indemnity Lloyds	9,097	9,097	100.0
003297	Travelers Lloyds Insurance Company	8,926	8,926	100.0
012318	Utica Lloyd's of Texas	8,375	8,375	100.0
003817	Hochheim Prairie Casualty Insurance Co	5,073	5,073	100.0
001709	American Modern Lloyds Insurance Company	4,010	4,010	100.0
001876	Union Standard Lloyds	1,442	1,442	100.0
001775	United Fire Lloyds	1,147	1,147	100.0
011021	Samsung F & M Insurance Co, Ltd USB	1,685	2,061	81.8
022328	Clear Blue Specialty Insurance Company	1,774	2,490	71.2
012472	ANPAC Louisiana Insurance Company	2,278	3,346	68.1
002422	Republic Underwriters Insurance Company	2,886	4,850	59.5
010611	Acceptance Indemnity Insurance Company	9,663	16,412	58.9
011783	American Property Insurance Company	1,250	2,146	58.2

Source: AM Best data and research

… as Well as Commercial Multiperil Carriers …

Insurance companies with appreciable commercial multiperil (CMP) portfolios in Texas may also be similarly impacted. **Exhibit 3** shows the 16 companies whose Texas CMP property books of business comprise more than 50% of their total CMP property portfolios countrywide. This includes ten companies whose entire CMP property portfolio is Texas-based. These insurers are acutely exposed to a multitude of potential losses.

Snow and ice have caused property damage to commercial structures on the inside and outside. Frozen and broken pipes causing water damage may lead to not only structural property damage but also damage to the personal property or contents of the businesses in the affected office buildings, warehouses, stores, etc. Power outages will be particularly costly to retail and wholesale business that deal with perishable goods. Moreover, extended power outages could create losses not only for primary insurers but reinsurers as well.

Commercial property insurance claims may also include utility service interruption coverage, which is optional in many commercial property policies, so ultimate insurable losses will be somewhat difficult to estimate. Policies including coverage for loss of utility service generally identify a specific interruption period before coverage is triggered, typically 24 or 48 hours. The extent of the potential losses will depend how long the power outages last.

These same exposures will affect the insurers of commercial insurance policies providing fire & allied lines coverage. Allied lines insurance is closely related to fire insurance and include coverages like water damage and vandalism. **Exhibit 4** shows the 18 Texas companies whose Texas fire & allied lines portfolio accounts for their entire book of business for these lines. The exposure to loss from snow, ice, and water damage and the surge in demand that will affect the commercial multiperil insurers will impact these insurers as well. The stress brought to bear on the state's infrastructure, number of available contractors, and associated resources will be substantial hurdles for all impacted lines of business.

… and Auto Insurers

Given the heightened perils of traveling on slick, icy Texas streets, roads, and highways, personal auto insurers in Texas and other states will also likely face significant increases in claims from a spike in accidents. **Exhibit 5** shows the 30 companies whose auto physical damage book of business is concentrated wholly in the state of Texas. Intensified driving-related perils could result in more accidents and auto physical damage losses in Texas and the affected states, where drivers are not used to driving in snowy, icy conditions.

Exhibit 4
Fire & Allied Lines Insurers Wholly Concentrated in Texas
100% of 2019 Fire & Allied Lines DPW in Texas (Minimum of $5.0 Million in Texas Fire & Allied Lines DPW)
($ thousands)

AMB #	Company Name	Texas
003687	Germania Farm Mutual Insurance Assn	329,951
001834	Ranchers & Farmers Mutual Insurance Co	138,894
003814	Hochheim Prairie Farm Mutual Ins Assn	136,450
003297	Travelers Lloyds Insurance Company	86,498
001753	Foremost Lloyds of Texas	83,827
002569	RVOS Farm Mutual Insurance Company	66,923
003312	Texas Farmers Insurance Company	47,851
004359	Texas Farm Bureau Underwriters	44,077
012703	Texas FAIR Plan Association	32,110
012223	Southern Vanguard Insurance Company	22,418
011069	Columbia Lloyds Insurance Company	21,117
001775	United Fire Lloyds	17,452
003829	Capitol County Mutual Fire Insurance Co	15,194
010826	Aventus Insurance Company	12,094
001709	American Modern Lloyds Insurance Company	10,144
013826	American Risk Insurance Company	9,857
002855	Nationwide Lloyds	9,302
011202	German American Farm Mutual Insurance Co	5,408

Source: AM Best data and research

"Costliest Winter Weather Event" in Texas History

State Farm Mutual Automobile Insurance, the biggest home insurer in Texas, has already reported seeing as many claims because of frozen pipes in the state as it had in the entire US all of last year, while San Antonio-based United Services Automobile Association said it has already received more than 20,000 claims tied to the weather. The Insurance Council of Texas has said it expects hundreds of thousands of claims from vehicles, homes, businesses, and renters, and that the storm "may be the costliest winter weather event in the state's history." The Independent Insurance Agents of Texas released a similar statement, noting expectations that this will be the largest insurance claim event in Texas history.

From an industry perspective, the first quarter of the year is usually the most benign quarter of the year for property catastrophe losses. Leading insurers and market observers already deem this storm to be an unprecedented event. AM Best believes that Winter Storm Uri and the damage it causes from snowfall, freezing rain, and arctic temperatures in Texas and other southern states may lead to record first-quarter property catastrophe losses for the insurance industry. AM Best will continue monitoring the statements and financial results filed by rated insurance entities to determine whether the financial strength of any entity is affected to such a degree that its current rating or rating outlook may need to be reassessed.

Exhibit 5

Auto Physical Damage Insurers Wholly Concentrated in Texas

100% of 2019 Auto Physical Damage DPW in Texas (Minimum $10 Million in 2019 Texas Auto Physical Damage DPW)

($ thousands)

AMB #	Company Name	Texas
003690	Progressive County Mutual Insurance Co	1,541,401
022059	GEICO County Mutual Insurance Company	998,243
004097	Farmers Texas County Mutual Insurance Co	626,143
012569	Liberty County Mutual Insurance Company	483,004
004682	Consumers County Mutual Insurance Co	234,024
001758	Auto Club County Mutual Insurance Co	181,176
003634	Foremost County Mutual Insurance Company	171,212
000892	Texas Farm Bureau Mutual Insurance Co	170,212
000764	Allstate County Mutual Insurance Company	130,682
010311	Home State County Mutual Insurance Co	130,372
010346	Colonial County Mutual Insurance Company	118,096
012564	Germania Select Insurance Company	107,865
013850	Texas Farm Bureau Casualty Ins Co	105,477
003382	Southern County Mutual Insurance Company	101,923
010360	Old American County Mutual Fire Ins Co	96,101
004359	Texas Farm Bureau Underwriters	92,464
003572	Infinity County Mutual Insurance Co	74,194
002476	State Farm County Mutual Ins Co of Texas	55,056
002661	Redpoint County Mutual Insurance Company	52,124
004286	Mercury County Mutual Insurance Company	38,933
011417	Metropolitan Lloyds Ins Co of Texas	36,270
011055	Unitrin County Mutual Insurance Company	34,660
003817	Hochheim Prairie Casualty Insurance Co	31,959
022111	Alinsco Insurance Company	31,272
003277	Dairyland County Mutual Ins Co of Texas	28,614
010445	Hallmark County Mutual Insurance Company	25,235
012107	Farm Bureau County Mut Ins Co of Texas	24,936
010574	CEM Insurance Company	21,015
002779	Germania Fire & Casualty Company	20,148
010255	American National County Mutual Ins Co	14,288

Source: AM Best data and research

February 2, 2021

Stock Market Frenzy Will Add to Social Inflation Pressures

Defense and containment costs are very likely to rise for insurers providing Robinhood coverage

Stock market volatility is a major driver of shareholder litigation, especially directors and officers insurance claims. The recent stock market frenzy surrounding GameStop, AMD, AMC, and other stocks has sparked social media outrage and already led to class action lawsuits—and more may follow.

Disclosures provided by Robinhood will be under intense scrutiny by lawyers, and although it may be a while before the courts decide, insurers providing coverage for Robinhood could still face steep defense and containment costs (DCC). Robinhood's investors and the firms through which it routes its trades may also face scrutiny with regard to their regulatory filings and disclosures. Some D&O insurance provides for government investigations if individual directors are the target of the investigations. If Congress issues requests for documents or subpoenas, these expenses may be covered by the D&O policy. Additionally, the overlap between D&O policies and cyber policies could also be tested.

A large portion of Robinhood's revenue comes from selling transaction data to firms for execution, something it had failed to disclose to its customers. In 2020, the SEC claimed this practice cost Robinhood users $34.1 million, even after considering the lack of commissions on transactions, and charged the company for its repeated misstatements. Robinhood paid $65 million to settle the claims.

DCC and social inflation (including increased jury awards due to anti-corporate sentiment and evolving jury demographics) are already creating pressure on D&O and professional liability insurers. Headline news such as Robinhood and the involvement of hedge funds, along with the accelerated pace of communication and engagement in social media, will likely worsen social inflation significantly—something insurers will have to monitor closely over the medium term.

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BEST'S COMMENTARY
Our Insight, Your Advantage.

February 16, 2021

Rejoining Paris Agreement Spurs US (Re)insurers' ESG Adoption

US (re)insurers may gradually notice increased scrutiny on what they disclose on climate-related risks

Principal Takeaways

- AM Best expects US (re)insurers' engagement with environmental, social and governance (ESG) factors to accelerate amid an increasing green focus from the US government
- Concern about exposure to climate risk, as well as reputational risk, are likely to persuade a growing number of US (re)insurers to consider ESG factors in their investing and underwriting activities
- Green infrastructure projects which support the transition from a high to low-carbon economy should present (re)insurers with new underwriting opportunities

The US rejoining of the Paris Agreement – which US President Joseph R. Biden ordered during his first hours in office and which is to come into force on 19 February, 2021 – is a clear sign that the new administration will be more engaged with responding to the threat of changing climate trends.

Outside the United States – in Europe and Asia Pacific, in particular – (re)insurers have been increasing the integration of ESG factors into their investment and underwriting activities. However, there has been a perception that US (re)insurers have lagged behind their global counterparts on this matter. Prospectively, AM Best expects the Biden government's increased emphasis on climate risk to prompt US (re)insurers to accelerate their ESG efforts.

This commentary sets out some of the potential short-to-medium term impacts on the (re)insurance industry as the US rejoins the Paris Agreement.

Climate-related disclosure requirements

Demand for increased disclosure on climate-related risks has been growing in recent years as investors, regulators, and lawmakers have acknowledged that these risks can be financially material and a potential threat to financial stability. A number of central banks and regulators, particularly in Europe, have imposed disclosure requirements to identify, monitor, and manage climate-related risks (along with broader ESG risks).

AM Best's recent ESG survey of European and Asia-Pacific (APAC) (re)insurers noted that regulators were seen as a source of high or significant stakeholder pressure for considering ESG risks and opportunities. Regulatory requirements have pushed (re)insurers to improve their understanding of all the potential risks facing their organisation, which should contribute to strengthening the sustainability of the insurance industry over the longer-term.

Now that Democrats control the White House and Congress, they are in a stronger position to push through their environmental agenda through executive action and new legislation. In turn, US (re)insurers, particularly those that are publically listed and fall under the oversight of the Securities Exchange Commission (SEC), may gradually notice increased scrutiny on how they consider and what they disclose on climate-related risks, more in line with what is observed for their European peers. For several years, large European insurers have had to publish annual reports on the social and environmental impact of their activities. The

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European and APAC (Re)Insurers' ESG Attitudes

Insurers and reinsurers globally are increasingly focusing on incorporating ESG factors into their investment and underwriting activities. A Best's special report titled *Insurers and Reinsurers: Ignoring ESG Factors Poses Reputational Risk* published in November 2020 highlighted the results of an AM Best ESG survey conducted across European and Asia APAC (re)insurers.

The report revealed that (re)insurers in Europe and Asia Pacific generally recognise the importance of ESG factors to the long-term viability of their businesses, although they are at different stages of their ESG journey.

Other feedback from European and APAC (re)insurers suggested:

- Overall, there is a marked lag between recognition of ESG risks and action being taken to mitigate those risks
- Larger (re)insurers with an international focus are typically more engaged and more active in the ESG arena than their smaller peers
- In the main, investment activities are the primary focus of ESG integration, with only a few respondents highlighting underwriting initiatives
- Corporate governance, product liability including cyber security, and climate risk were cited as the most relevant ESG issues for the (re)insurance industry
- Lack of transparent and comparable definitions and data is stifling greater application of sustainable investing practices.

European Commission's technical expert group on sustainable finance has also been working on formulating a standardised taxonomy for sustainable activities, EU Green Bond Standard, and climate disclosure guidance.

Globally, there has been an uptick in the number of regulators implementing climate stress tests for banks and insurers, including in the United Kingdom, France, and Australia. As the SEC considers developing regulatory standards around how (re)insurers integrate ESG factors in their operations, they may be inclined to look to international counterparts for inspiration.

Transition from a high to low-carbon economy

Concerns about exposure to climate risk, as well as reputational risk, are likely to persuade a growing number of US (re)insurers to consider ESG factors in their investing and underwriting activities, as the Biden administration encourages the development of sustainability regulations and projects.

AM Best's ESG survey of insurers in Europe and Asia Pacific revealed a majority of (re)insurers consider that failure to act on stakeholder pressure around ESG issues could lead to long-term reputation challenges. Furthermore, reducing reputational risk was the most-cited reason by European and APAC survey respondents for integrating ESG factors in investment mandates.

The implementation of more stringent climate targets at a federal level is very likely to have an impact on high-emitting sectors, like the coal industry.

This might result in increased environmental regulation and the implementation of incentives, which would aim to accelerate the transition from a high to low-carbon economy.

Such measures to support the transition may encourage insurers to enhance their investment strategies by integrating ESG factors, to limit their exposure to what could become stranded assets – those assets that may lose their value unexpectedly or prematurely due to external factors.

The Keystone XL pipeline provides an example: on inauguration day, President Biden rescinded the licence, through executive action, for the planned 1,179-mile oil pipeline between Alberta, Canada and Steele City, Nebraska.

On the underwriting side, (re)insurers that provide insurance cover to so-called "toxic" industries may come under increased scrutiny and suffer from publicity that could damage their reputation by association.

If capacity is withdrawn as a consequence and coal companies, for example, are unable to find sufficient insurance cover in the international (re)insurance market, there could be business opportunities created in the captive insurance space.

Growth in green infrastructure might offer opportunities

Efforts to support the transition to a low-carbon economy and meet the US climate targets under the Paris Agreement should result in an increase in green infrastructure, including solar and wind parks and levees/floodgates to improve flooding resilience.

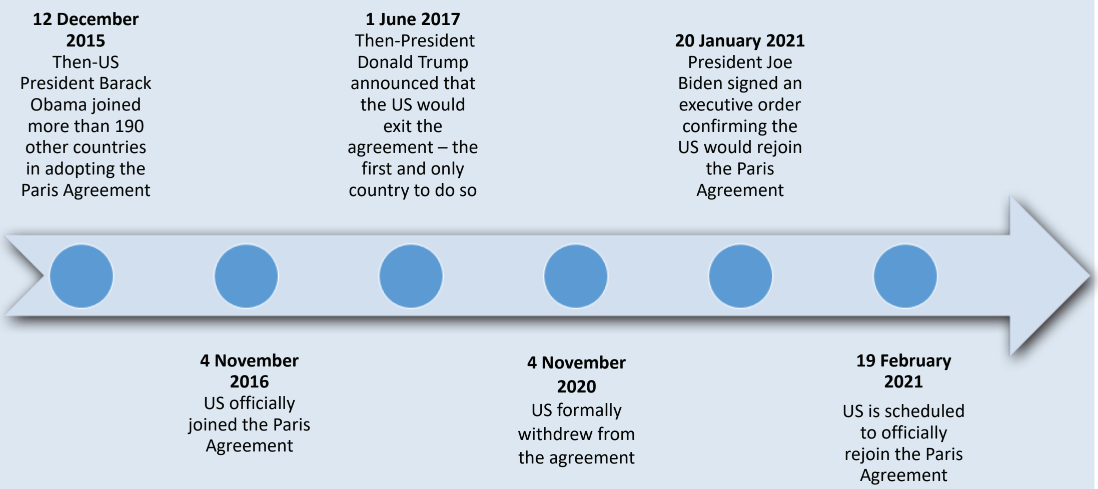
Some of these new technologies may require (re)insurers to redesign their product offering to take into account new risks. These projects represent significant opportunities for (re)insurers that can embrace the shift and tailor their products accordingly.

What is the Paris Agreement?

The Paris Agreement is a legally binding international treaty on climate change. In a historic display of global unity on combating climate change, the agreement was adopted by 194 countries in December 2015 and entered into force on 4 November 2016.

The agreement's primary goal is to keep the global temperature rise this century well below 2°C above pre-industrial levels and to pursue efforts to limit the temperature increase to 1.5°C. In addition, the agreement aims to strengthen the global response to the threat of climate change.

All signatories set self-determined commitments to cut their climate-altering pollution and to strengthen those commitments over time. The agreement provides a pathway for developed nations to assist developing nations in their climate mitigation and adaptation efforts, and creates a framework for the transparent monitoring, reporting, and ratcheting up of countries' individual and collective climate goals.



BEST'S COMMENTARY
Our Insight, Your Advantage.
COVID-19

February 1, 2021

UK Commercial Property Insurers — Looking Beyond a Difficult 2020

Principal Takeaways

- 2020 proved a difficult year for UK commercial property insurers, but the key exacerbating factors should subside in 2021
- Premium rates are expected to rise through 2021 in response to loss experience
- Actions taken to more clearly define business interruption (BI) cover during 2020 should mean the majority of COVID-19-related exposures will have run-off soon after the anniversary of the initial lockdown in March
- However, possible disputes with reinsurers over existing BI claims loom and the industry faces a challenge rebuilding its reputation among SME clients

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 BI policy

Disputes around non-damage business interruption (BI) cover, which made 2020 a difficult year for UK commercial property insurers, should subside in 2021. This follows the Supreme Court ruling in the test case bought by the Financial Conduct Authority (FCA) as well as policies with more clearly defined wordings coming into force. But challenges remain for a sector that needs to rebuild its reputation among its SME clients.

The Supreme Court ruling in January 2021 brought greater clarity to insurers and policyholders surrounding the validity of contested non-damage BI claims stemming from government-mandated COVID-19 closures.

In response to the judgment, affected insurers are expected to increase their COVID-19-related BI loss estimates. Most have presented their estimates net of reinsurance, indicating that they expect to make recoveries on their reinsurance programmes. But possible disputes with reinsurers loom and it will be some time before insurers realise the exact cost of the pandemic on their commercial property books.

The level of recoveries will depend on the structure of reinsurance programmes, and interpretations of reinsurance contract wordings, such as the aggregation of COVID-19-related claims within and across different lines of business and geographies, and the definition of the event or occurrence that triggers the reinsurance cover. As losses mount, reinsurers are likely to bear a higher proportion of claims due to companies exceeding their retentions. However, dispute risk between insurers and reinsurers is lower where quota share cover is written back-to-back, with the reinsurer committed to following the fortunes of its cedent.

Residual COVID-19 BI Exposure Running-Off

Non-damage BI claims stemming from the COVID-19 pandemic came as a surprise to commercial property insurers. In the UK, BI endorsements usually cover loss of earnings only in relation to physical damage. A limited number of policies in the market do cover BI from other causes, such as infectious disease, but in these policies notifiable disease clauses were intended to cover closure of a property owing to a local outbreak of a notifiable disease on a specified site. As a result, most insurers did not expect their policies to respond to widespread lockdown measures associated with a pandemic and had not priced in this exposure.

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Further lockdowns in 2020, stretching into 2021, will likely have added to insurers' claims bills, but actions taken to exclude COVID-19-related claims should mean the majority of exposures will have run-off soon after the anniversary of the initial lockdown in March 2020.

The uncertainty and negative press around some BI claims stemming from the pandemic forced commercial property insurers in the UK to look again at their wordings. To address potential ambiguity, most affected insurers quickly amended their wording on new policies to more clearly define the scope of cover. These actions should lead to significantly better claims experience in 2021, as pandemic cover will be excluded in most cases.

Supreme Court Ruling Adds to Insurers' Bills

On 15 January 2021, the Supreme Court delivered its ruling on the appeal brought by the FCA and a number of insurers. The Supreme Court ruling largely upheld the High Court's original September 2020 judgment, which concluded that most disease clauses in policy wordings provided cover. However, the new ruling found that the original High Court judgment was "too narrow" in its interpretation of denial of access wordings. The FCA's test case is thought to represent around 370,000 policyholders whose claims led to dispute, however, a proportion of these claims have not been upheld by the judgment.

By June 2020, UK commercial property insurers had already incurred significant losses on BI claims, and the test case judgment in September led to further increases in loss estimates. The judgment of the Supreme Court is expected to increase claims further, due to a broader interpretation of what can be claimed for partial closures and guidance on reference earnings for loss of earnings calculations. While this is further bad news for insurers, the increase in loss estimates is not expected to be as material as those booked in response to the September test case verdict.

The Supreme Court judgement is final, meaning no further appeals can be lodged. Insurers and policyholders have welcomed the guidance provided by the outcome, but potential for dispute still exists in the calculation of earnings lost by policyholders due to the pandemic, and in situations where wordings are not the same as those considered in the test case.

Repairing Damaged Reputations

Insurers have broadly welcomed the clarity that the Supreme Court's decision brings. Disputes over BI cover are unfavourable for the reputation of affected insurers and the overall industry. More broadly, they have highlighted the potential for a gap between the insurer's and the customer's understanding of what is covered by the insurance contract when policy wording isn't sufficiently clear. Going forward, it is important that transparency is improved and that the industry ensures that there is greater clarity as to what is covered in a BI policy so that insureds understand exactly what they are buying cover for.

In the short term, it is important that valid claims are paid as quickly as possible and a number of insurers affected by the FCA test case have already begun processing claims settlements. According to the Association of British Insurers, the UK insurance industry expects to pay out more than GBP 1.8 billion in COVID-19-related claims across a range of products, including BI policies.

Despite the negative press coverage for disputed COVID-19-related BI claims, AM Best does not expect a significant impact on demand for BI extensions, as their primary purpose of indemnifying lost earnings arising from physical damage remains unchanged as a result of disputes over a small number of policies.

Rates Improving in Response to Loss Experience

Settlements related to COVID-19 BI claims will continue through 2021 but overall performance in the commercial property sector this year is likely to be driven by more typical losses such as physical damage caused by fire and flood. There are signs that rates continue to rise in response to loss experience, having built some momentum in 2020. The UK property market produced a five-year average combined ratio of around 102% between 2015 and 2019 and, following COVID-19 losses, is expected to report a combined ratio well in excess of 100% for 2020. With investment income under pressure from historically low interest rates, underwriting discipline and adequate pricing is crucial for the UK commercial property segment to achieve overall profits.

Following various material milestones in 2020, such as the first lockdown and the September test case verdict, the Supreme Court ruling is something of a drip-feed of bad news. AM Best does not expect the level of reserve strengthening required following the 15 January ruling to have a material effect on the capital or earnings of companies as the majority of losses had already been booked in September. However, AM Best will continue to assess the impact on the earnings, reserves and capital position of individual rated entities affected by BI losses.

BEST'S SPECIAL REPORT
Our Insight, Your Advantage.
Europe Life and Non-Life

Regulatory Review
February 10, 2021

A Very Particular Regime — EIOPA's Solvency II Review Advice

AM Best views EIOPA's proposals as a reflection of Solvency II's compromises between theory, practice, history and politics

Principal Takeaways

- Latest EIOPA proposals make a start in dealing with uneconomic aspects of Solvency II.
- Concerns that EIOPA proposals would make it more difficult for the UK to reform risk margins, while retaining Solvency II equivalence, appear unfounded.
- Moves towards the harmonisation of insurance guarantee schemes is a marker of a maturing EU group supervision regime

The publication of the European Insurance and Occupational Pensions Authority's (EIOPA) final advice for the European Commission marks an important step forward for the Commission's review of its Solvency II regime. The advice came in the form of three documents totalling over 1,500 pages. It will be highly influential, though the Commission does not have to follow it in every respect.

The documents are EIOPA's response to the European Commission's request for advice arising from its mandatory review of Solvency II, which commenced in 2020 in line with the Commission's obligations under legislation.

If EIOPA's advice is implemented, AM Best would expect to see increases to best-estimate liabilities (as measured under Solvency II), mostly offset by decreases in the risk margin and the effect of a larger volatility adjustment under EIOPA's proposals.

Further, AM Best views EIOPA's proposals as reflecting the Solvency II regime's particular compromises between theory, practice, history and politics. Such influences may also, on occasion, compromise targeting an economic outcome. For example:

- Discount rates at longer durations may be viewed as remaining too high
- Transitional measures have mostly, though not always, pulled Solvency II ratios away from an economic picture of an insurer, and:
- The inclusion in own funds of a profit on the unexpired non-life risk remains an unusual feature across the wider universe of insurance financial and regulatory reporting.
- At the same time, other aspects of Solvency II may be viewed as harsh.

However, AM Best's overall assessment is that EIOPA's proposals would move the regime somewhat closer to providing an economic picture of insurers.

Winners and Losers

EIOPA's proposals give rise to winners and losers. If a product particularly benefits under Solvency II — as it currently stands — from the extent to which the ultimate forward rate (UFR) exceeds current rates, then EIOPA's advice would depress the solvency ratio (from current levels). This would appear to apply, for example, to traditional life savings products in Germany and the Netherlands. If changes to the volatility adjustment (VA) in EIOPA's advice are accepted, then insurers that use the VA and are based in countries which have benefited

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from the eurozone-wide VA reference portfolio (such as Germany) may well suffer a reduction in available capital compared with those that were not beneficiaries (Italy), albeit the impact of the VA on ratios would become less volatile.

It appears to AM Best that concerns the review might be unhelpful to any UK effort to reform the risk margin without endangering equivalence (at least on grounds of a divergence of outcomes) have in general not been realised. It is notable that UK insurers, were they to be assessed under a Solvency II regime that followed EIOPA's advice, would mostly be unaffected by the discount rate proposals. UK insurers use market discount rates even for long duration contracts, whereas the changes concern the calculated (non-market) discount rates used at longer durations by insurers based in most EU markets. At the same time, UK life insurers would benefit from reductions to the risk margin in the EIOPA advice. These appear, on initial analysis, to be substantial, indeed particularly so for the longer duration contracts that are likely to be the focus of UK risk margin reform.

AM Best further observes the progressive development of group solvency regulation under the advice, and in particular, the efforts to harmonise recovery and resolution across the different countries of the EU. In the view of AM Best, this is a marker of a maturing EU group supervision regime. Without such harmonisation, national supervisory authorities may act (in the course of normal supervision, as well as recovery and resolution exercises) on narrow objectives around protecting policyholders within their own territories, thus constraining fungibility of capital.

EIOPA's advice adds to complexity in the regime by introducing new parameters without an offsetting removal of existing parameters. For example, the VA changes would introduce new "application ratios", while the risk margin changes would introduce a "floored, exponential and time" dependent factor (set at 0.975).

EIOPA's advice covers a broad sweep of subjects. In this report, AM Best has chosen to comment on some of the more important proposed changes.

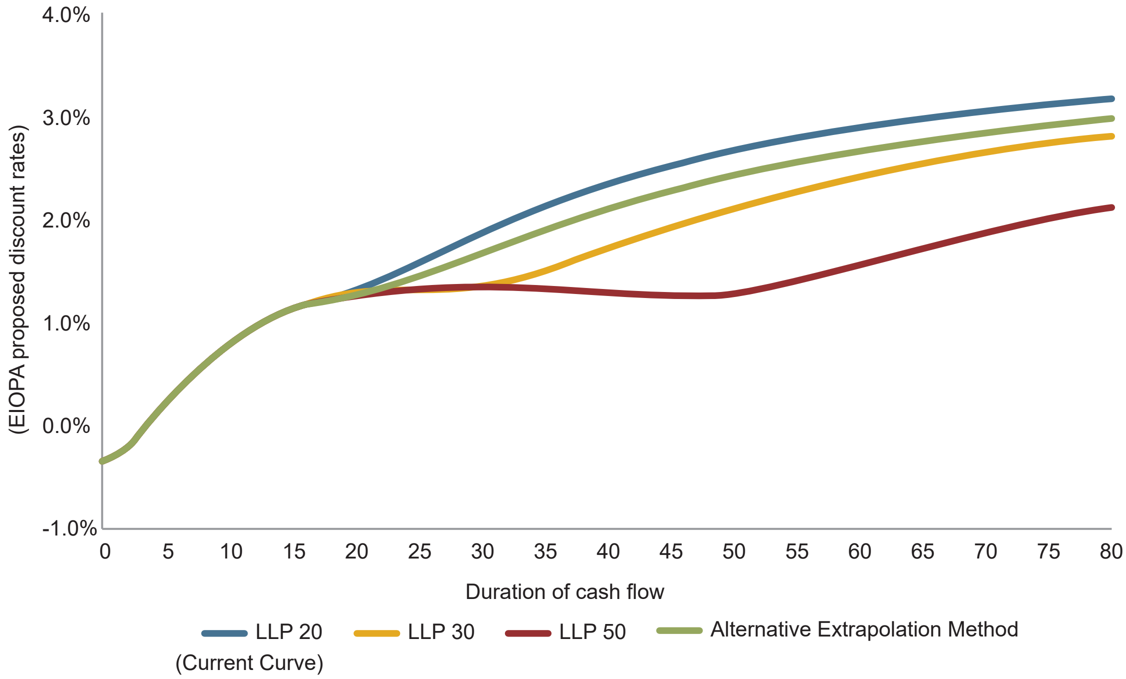
Discount Rates

Many EU insurers operate in territories where Solvency II deems liquid bond markets to exist only up to a duration of 20 years. A UFR which applies to cash flows starting many decades ahead is set by regulation under Solvency II (currently 3.9%). Risk-free interest rates for discount rate purposes which converge smoothly to the UFR after 20 years are then also prescribed by regulation. This currently produces an interest rate curve as shown by the blue line in **Exhibit 1**.

In a consultation in 2019/20, EIOPA proposed that this curve might be changed to start converging at later durations, but its final advice in December 2020 is to retain the 20-year limit and use a slower convergence rate (as shown by the green line in **Exhibit 1**).

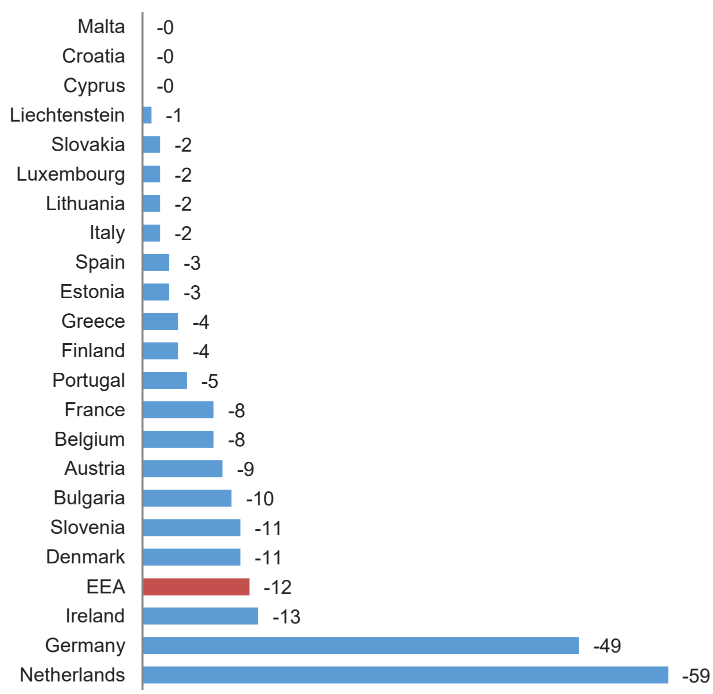
For products where the cash flows extend over the long term, the change would still have a significant impact on best estimate liabilities, as can be seen in the impact on Solvency Capital Requirement (SCR) ratios in Germany and the Netherlands in **Exhibit 2**. Taking the European Economic Area (EEA) as a whole, SCRs are quoted by EIOPA as reducing by an average of 12 percentage points due to this change. The large reductions in SCR ratios in Germany should be considered in the context of the country's already generally high SCR ratios when compared with other countries. It is also noteworthy that the EIOPA material shows there to be considerable dispersion in the impact of the change in individual insurers.

Exhibit 1
EIOPA Advice on Changes to Interest Rate Extrapolation to the UFR
(%)



Source: EIOPA

Exhibit 2
Percentage Points Reduction in SCR Ratio due to EIOPA Advised Interest Rate Extrapolation to the UFR
(Percentage points)



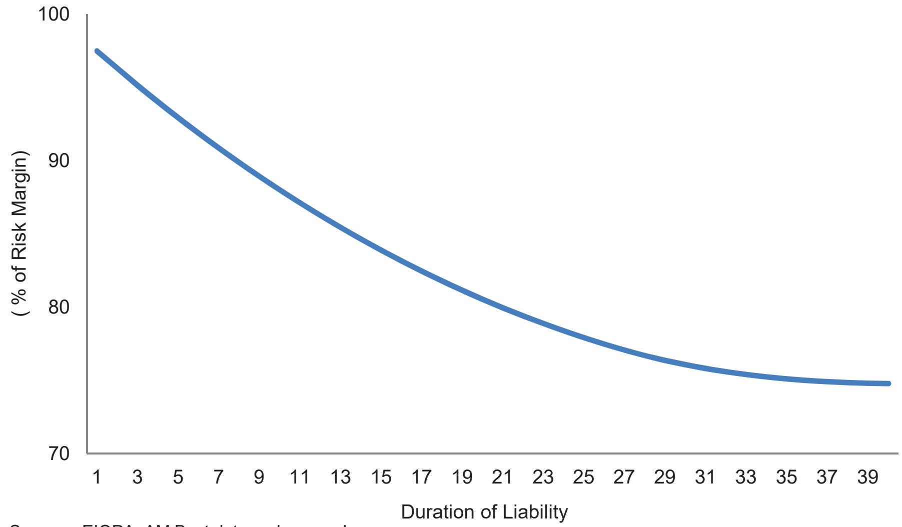
Source: EIOPA

Risk Margin

The risk margin under Solvency II is set according to a prescribed calculation. This is a summation of discounted amounts over the duration of a policy (including coverage and settlement periods). These amounts (pre-discounting) may be regarded as a fixed percentage of a projected SCR at the end of each year. The result in times of low interest and discount rates has been an unrealistically high risk margin, particularly for longer duration products (such as traditional life products in Germany and the Netherlands, and annuities in the UK).

Exhibit 3

Solvency II Review – Illustrative Risk Margin on EIOPA Advice, as Percentage of Current



Sources: EIOPA. AM Best data and research

EIOPA has proposed that each element of the existing summation should be multiplied by a new factor which reduces with each year of duration until it reaches 0.5x at around year 28. AM Best views EIOPA's proposals as equivalent to increasing the discount rate applied by 2.6%. In any event, the result is to reduce the risk margin, with the reduction being a function of the duration of each policy. **Exhibit 3** is illustrative only but shows how the risk margin under EIOPA's proposals reduces as a percentage of the current amount with duration.

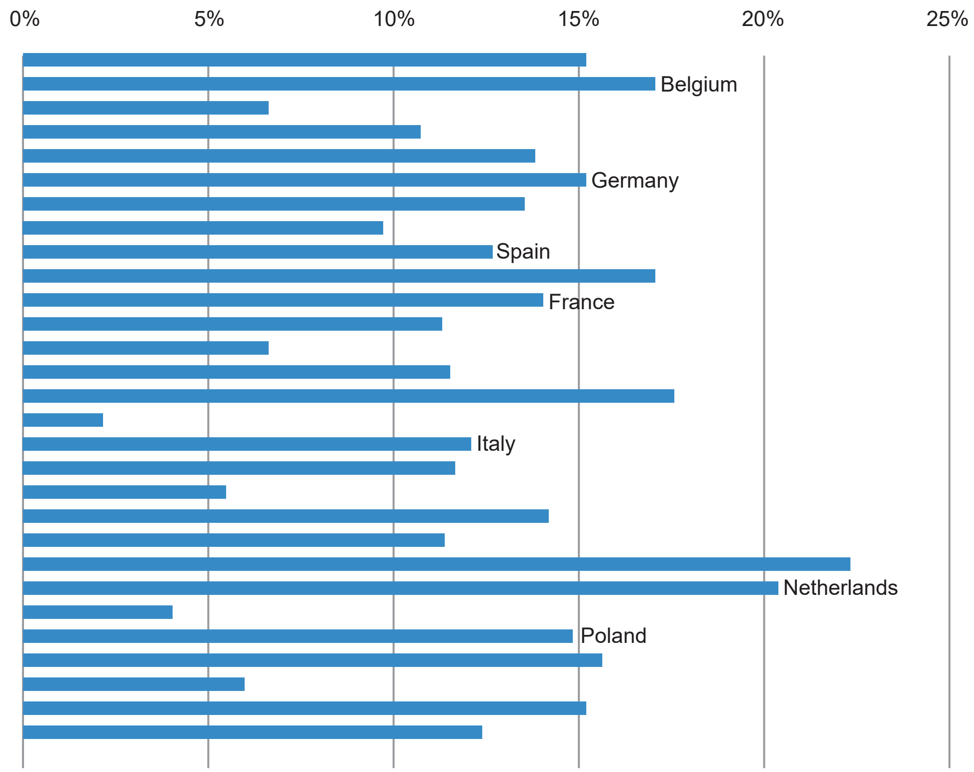
The actual effect of the proposed change on an insurer's risk margin will vary according to its product mix. However, as part of a consultation exercise, EIOPA asked for data from insurers on the results across various options. From this, EIOPA assembled a summary of the impact for the risk margin proposal in its final advice aggregated by country (see **Exhibit 4**).

The UK is not shown in the summary as it is no longer part of EIOPA's data set. AM Best estimates, as an order of magnitude, that UK annuity writers would see a reduction in their risk margin were the UK regulatory authorities to implement similar changes in the 20%-plus range.

Recovery, Resolution and Insurance Guarantee Schemes

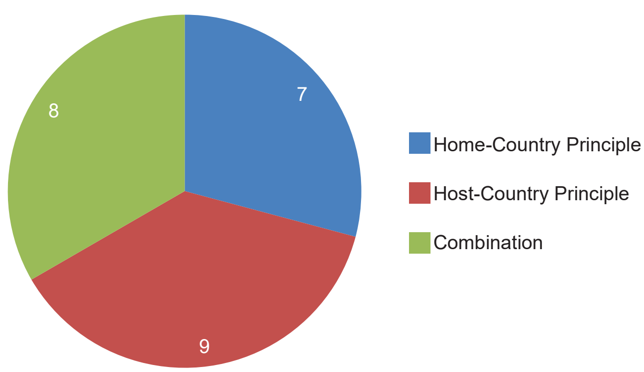
This is a complex area where practice varies widely in the EU and for which, in the view of AM Best, policy can result in far-reaching consequences for financial incentives and economic outcomes. For example, the 100% coverage of life policies by the German insurance guarantee scheme (IGS) with no upper limit is unique in the 11 examples of IGSs set out in EIOPA's background analysis material for its advice. AM Best notes that the UK IGS has also provided this exceptional 100% level of coverage for life insurance policies since July 2015. However, the immediate challenge for the Commission regarding IGSs is not to identify a single economically optimal design but, more practically, to rationalise the position for insurance effected cross-border while the schemes (with their differing levels of coverage) operate on a national basis.

Exhibit 4
Reduction in Risk Margin for EEA Countries due to EIOPA Advice on Changing the Calculation (%)



Notes:
Aggregated by home country of insurer.
Only larger countries are identified.
Source: EIOPA

Exhibit 5
EIOPA – Classification of EU Insurance Guarantee Schemes



Source: EIOPA

The treatment of cross-border insurance by guarantee schemes can be characterised as falling into two categories:

- Home-country approach – all policies issued by domestic insurers including those issued in other countries are covered by the home country's IGS.
- Host-country approach – all policies sold in a country regardless of where the insurer is based are covered by a national IGS.

A country may also adopt a mix of the home and host approaches. EIOPA has classified IGSs operating in most of the EU countries into home, host or combination categories as shown in **Exhibit 5**.

Home-country approach IGSs have the advantage that all of a company's policyholders are treated equally (if a country's IGS can locate the policyholders in other countries) and the approach is aligned with the responsibilities of the national, or home, insurance regulator. However, policyholders of insurers that fail will be treated differently, depending on the coverage terms of the IGS for the home country of the failed insurer.

Host-country approach IGSs have the advantage that all policyholders in a country are treated the same regardless of where a failed insurer is based, and the domestic IGS should be able to locate all policyholders. However, domestically supervised insurers pay for failures that may be seen as the responsibility of regulators in other countries, and policyholders of the same EU insurer in different countries are treated differently. If an IGS excludes coverage (and contributions) from non-domestic insurers then policyholders become reliant on the approach of the insurer's home country IGS.

EIOPA recommends IGSs in the EU should operate on the home-country principle but only compensate up to agreed EU minimum levels. Host countries may top this up as they wish. Commercial insurance would, in general, not be covered by these schemes.

In AM Best's view, moves towards the harmonisation of insurance guarantee schemes is a marker of a maturing EU group supervision regime. Without such harmonisation, national supervisory authorities may act (in the course of normal supervision, as well as recovery and resolution exercises) on narrow objectives around protecting policyholders within their own territories, thus constraining fungibility of capital within insurance groups.

Regulatory Solvency Regimes and Best's Credit Rating Methodology

AM Best sees regulatory solvency regimes as important commercial constraints for insurers, and also as potentially significant indicators of insurer balance sheet strength. As previously noted, the Solvency II regime is a particular compromise between theory, practice, history and politics. It mixes an approach which assumes idealised perfect markets, the incorporation of practical experience in the form of the volatility and matching adjustments, transitional measures which bridge the gap with previous regimes, and an interface with solvency regulation in other jurisdictions in the form of equivalence rules which can be subject to a variety of influences.

AM Best independently targets the underlying economics of insurers in its rating process and uses its Best's Capital Adequacy Ratio (BCAR) model to assist with quantitative aspects of assessing balance sheet strength. Full details can be found on the Best's Credit Rating Methodology (BCRM) page of AM Best's website.

Solvency II Available Capital, Comparisons With IFRS

AM Best compares aspects of the available capital calculation in Solvency II with equity in insurers' current financial reporting under IFRS 4 and IFRS 17 (as it will be reported from 2023) in **Exhibit 6**.

Exhibit 6
Solvency II Available Capital and Financial Reporting Under IFRS

	Solvency II	IFRS 4	IFRS 17
Discount rate	Prescribed by regulation. Assumed trend (upwards) to UFR	Various. Current market and at-issue rates used. Undiscounted account values also used.	Principles stated in standard. Market values targeted.
Illiquidity in discount rate	Illiquidity allowed for in volatility and matching adjustment.	Varies, but not explicitly allowed for.	Illiquidity is explicit part of setting of discount rates.
Allowance for risk	Risk margin prescribed by regulation.	Implicit prudential margins.	Risk adjustment set using principles stated in standard. Market values targeted.
Premiums for unexpired risk, 12 month contracts	Cash flows discounted. Expected profit contributes to surplus.	Part of technical reserves.	Part of insurance contract liabilities. No CSM under PAA.
Unit linked contracts	Contribute to surplus if regulated as insurance.	Account value, generally no contribution to equity.	If insurance contracts under IFRS 17, will contribute to CSM.
Transitional measures	Variously available and used. Brings Solvency I quantities into returns.	N/A	None.
Equivalence	Brings regulatory reporting of equivalent regimes into Solvency II available capital.	Consolidated accounts may incorporate various local GAAPs applied in different territories.	None. IFRS 17 is applicable to the global operations of IFRS reporters.
Capital in participating funds	Inclusion in own funds varies. Usually is partly excluded from available capital whilst fully assessed for required capital.	Usually part of technical provisions and does not contribute to equity.	Insurance contract liabilities likely to anticipate full distribution of fund to policyholders. Shareholders' profit share contributes to CSM.
Application	European Union. Quantities from other territories' regulatory reporting may be imported into the calculations through equivalence	Global, where adopted in jurisdiction of reporting insurer. Incorporates previously used local GAAPs.	Global, where adopted in jurisdiction of reporting insurer.

Source: AM Best data and research

February 2, 2021

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

India's move to raise the cap on foreign direct investment (FDI) in insurance companies from 49% to 74% is viewed by AM Best as credit positive to the country's fast-developing insurance market. The increase in FDI limit, which was announced during the finance minister's fiscal year 2021/2022 budget presentation to parliament on 1 February 2021, will allow Indian insurers greater financial flexibility in additional capital raising and over time is expected to support a bolstering of the sector's solvency. Under the new structure, the majority of directors on the board and key management persons would be resident Indians, with at least 50% of directors being independent directors. A specified percentage of profits is also to be retained as general reserve, which will contribute to strengthening companies' capital positions. AM Best notes that the government's mandate for control of the companies to remain with resident Indian citizens may be a limiting factor for foreign insurers looking to hold majority interest.

The government commenced liberalising the Indian insurance industry in 2000, with FDI restricted to 26%. A second set of reforms was introduced in 2015, which raised the foreign investment cap for the sector to the current 49%. In addition, during 2019, the foreign investment cap for insurance intermediaries was raised to 100%.

Between 2000 and 2020, data published by the Ministry of Commerce and Industry showed that FDI equity inflows to India's insurance sector amounted to INR 849.2 billion (USD 13.5 billion). Of this, almost 79% was recorded during the period from January 2015 to September 2020, following the government's relaxation of the foreign investment limit in 2015. The market posted a record investment inflow of INR 240.9 billion (USD 3.6 billion) in calendar year 2016. Prospectively, given the historical trends and the opportunity to hold greater ownership in the insurance companies, AM Best is of the opinion that the Indian insurance industry is likely to attract significant overseas capital inflow.

The potential capital inflow is paramount to strengthening the solvency of the overall industry, particularly for the general insurance companies, which have recorded declining capital buffers over the last few years. Between March 2017 and March 2019, the number of companies which maintained a capital buffer of 10% or less over the minimum solvency ratio (1.5 times) nearly doubled to almost one-third of the general insurance segment. The Indian general insurance market has also been dragged down by poor underwriting performance, which has hampered insurers' capital growth. As of March 2019, three large public sector companies were found to be heavily under-capitalised and had to seek favourable treatments from the regulator on certain investment assets to alleviate pressures on their capital adequacy. In our view, the fresh capital infusion is not likely to exacerbate the persistent competitive conditions as the Indian insurance market may not remain sustainable with further weakening of pricing levels on some of the unprofitable lines.

AM Best notes that the raised FDI cap will enable the overall Indian insurance industry to attract fresh capital and further expand underwriting operations, which will contribute to growing the insurance penetration in the country. The potential boost in foreign ownership–particularly in the case of overseas insurance investors–will also support knowledge transfer and process improvements that will accelerate the development of India's insurance industry into a globally competitive marketplace.

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BEST'S COMMENTARY
Our Insight, Your Advantage.
Argentina Insurance

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Policyholders Face Steep Hikes in Auto Insurance Prices in 2021

Argentinian peso depreciation, as well as supply chain disruptions, have led to a rise in automobile prices as well as spare parts and repair costs

Argentinian policyholders are facing a steep hike of more than 50% in auto policy prices in 2021, despite discount programs, refunds, and extended time payment facilities, following strict quarantine in the country, markedly reducing traffic flow and thus claims frequency in 2020.

The ongoing depreciation of the Argentinian peso—by almost 42% in 2020, according to the Central Bank of Argentina—and supply chain disruptions led to a rise in automobile prices as well as spare parts and repair costs. With automobiles becoming more expensive, the sums assured are rising and thus policy prices. For similar coverages and vehicle models, the price hikes may be uneven, as insurance companies adjust pricing in an effort to maintain profitability amid a contraction in business and historic foreign exchange volatility.

Policyholders insured by companies with outdated tariffs or with prices below the market average are the most likely to face pressured finances, as companies level up with the market through aggressive price increases. Insurance companies could lose market share, but raising prices may help minimize the short-term financial fallout of a potential increase in loss frequency as the economy gradually re-opens. At the same time, policyholders are likely to become more selective about coverage. The implementation of digital technologies and data analytics will provide Argentinian policyholders with more cost-efficient and customized solutions and enhance insurers' underwriting practices while maintaining market competition.

Argentina's non-life market accounts for the bulk of the insurance industry's gross premiums, of which the auto segment accounts for more than a third, driven partly by mandatory car insurance. High inflation and foreign exchange volatility have historically distorted the auto line's underwriting performance, reflected in combined ratios above 100. The segment's profitability is driven primarily by investment income from government-backed obligations, but the number of financial instruments—in either local or foreign currencies (USD)—approved by the local regulator is limited, which adds to the challenge the country's auto insurance industry faces.

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2021-046

Best's Market Segment Outlooks

MARKET SEGMENT	OUTLOOK
North America Property/Casualty Markets	
US Personal Lines	**Stable**
Homeowners	Stable
Personal Auto	Stable
US Commercial Lines	**Negative**
Commercial Auto	Negative
Commercial Property	Negative
Excess & Surplus Lines	Stable
General Liability	Negative
Medical Professional Liability	Negative
Private Mortgage Insurers	Negative
Professional Liability	Negative
Surety	Negative
Title	Stable
Workers' Compensation	Negative
Canada Property/Casualty	**Stable**
North America Life/Health Markets	
US Life/Annuity	**Negative**
Life	Negative
Annuity	Negative
US Health	**Stable**
Disability Insurance	Negative
Long Term Care	Negative
Supplemental Health	Stable
Canada Life/Annuity	**Negative**
Reinsurance	
Global Reinsurance	**Stable**
Global Life Reinsurance	Stable
Global Non-Life Reinsurance	Stable
Europe, Middle East, and Africa (EMEA)	
France Life	Negative
France Non-Life	Stable
Germany Life	Negative
Germany Non-Life	Stable
Gulf Cooperation Council (GCC) Region	Negative
Italy Life	Negative
Italy Non-Life	Stable
Spain Life	Negative
Spain Non-Life	Stable
UK Life	Negative
UK Non-Life	Negative

MARKET SEGMENT	OUTLOOK
Asia-Pacific	
China Non-Life	Negative
India Non-Life	Negative
Indonesia Non-Life	Stable
Japan Life	Negative
Japan Non-Life	Stable
South Korea Non-Life	Negative
Taiwan Non-Life	Stable
Vietnam Non-Life	Stable
Latin America	
Argentina Insurance	Negative
Bolivia Insurance	Negative
Brazil Reinsurance	Negative
Chile Insurance	Negative
Colombia Insurance	Negative
Guatemala Insurance	Stable
Mexico Insurance	Negative
Panama Insurance	Negative
Peru Insurance	Stable

GUIDE TO BEST'S MARKET SEGMENT OUTLOOKS

Our market segment outlooks examine the impact of current trends on companies operating in particular segments of the insurance industry over the next 12 months. Typical factors we would consider include current and forecast economic conditions; the regulatory environment and potential changes; emerging product developments; and competitive issues that could impact the success of these companies. Best's ratings take into account the manner in which companies manage these factors and trends.

A Best's Market Segment Outlook, like a Best's Credit Rating Outlook for a company, can be Positive, Negative, or Stable.

Best's Market Segment Outlook

Positive	A Positive market segment outlook indicates that AM Best expects market trends to have a positive influence on companies operating in the market over the next 12 months. However, a Positive outlook for a particular market segment does not mean that the outlook for all the companies operating in that market segment will be Positive.
Negative	A Negative market segment outlook indicates that AM Best expects market trends to have a negative influence on companies operating in the market over the next 12 months. However, a Negative outlook for a particular market segment does not mean that the outlook for all the companies operating in that market segment will be Negative.
Stable	A Stable market segment outlook indicates that AM Best expects market trends to have a neutral influence on companies operating in that market segment over the next 12 months.

We update our market segment outlooks annually, but may revisit them at any time during the year if regulatory, financial, or market conditions warrant.

Best's Country Risk Tiers

as of February 28, 2021

Country	Risk Tier	Country	Risk Tier	Country	Risk Tier	Country	Risk Tier
Albania	CRT-4	Croatia	CRT-4	Kazakhstan	CRT-4	Qatar	CRT-3
Algeria	CRT-5	Curaçao	CRT-3	Kenya	CRT-5	Romania	CRT-3
Anguilla	CRT-3	Cyprus	CRT-3	Kuwait	CRT-3	Russia	CRT-4
Antigua & Barbuda	CRT-4	Czech Republic	CRT-2	Laos	CRT-5	Saudi Arabia	CRT-3
Argentina	CRT-5	Denmark	CRT-1	Lebanon	CRT-5	Serbia	CRT-4
Armenia	CRT-5	Dominican Republic	CRT-4	Libya	CRT-5	Sierra Leone	CRT-5
Australia	CRT-1	Ecuador	CRT-5	Liechtenstein	CRT-2	Singapore	CRT-1
Austria	CRT-1	Egypt	CRT-5	Luxembourg	CRT-1	Slovenia	CRT-2
Azerbaijan	CRT-4	El Salvador	CRT-4	Macau	CRT-2	South Africa	CRT-4
Bahamas	CRT-3	Ethiopia	CRT-5	Malaysia	CRT-3	South Korea	CRT-2
Bahrain	CRT-4	Finland	CRT-1	Malta	CRT-3	Spain	CRT-2
Bangladesh	CRT-5	France	CRT-1	Mauritius	CRT-3	Sri Lanka	CRT-4
Barbados	CRT-4	Gabon	CRT-5	Mexico	CRT-3	St. Kitts & Nevis	CRT-3
Belarus	CRT-5	Georgia	CRT-4	Micronesia	CRT-5	St. Lucia	CRT-3
Belgium	CRT-1	Germany	CRT-1	Mongolia	CRT-5	St. Maarten	CRT-3
Belize	CRT-4	Ghana	CRT-5	Morocco	CRT-4	Suriname	CRT-5
Bermuda	CRT-2	Gibraltar	CRT-1	Mozambique	CRT-5	Sweden	CRT-1
Bhutan	CRT-5	Greece	CRT-4	Myanmar	CRT-5	Switzerland	CRT-1
Bolivia	CRT-5	Guatemala	CRT-4	Namibia	CRT-4	Taiwan	CRT-2
Bosnia and Herzegovina	CRT-5	Guernsey	CRT-1	Nepal	CRT-5	Tanzania	CRT-5
Botswana	CRT-4	Honduras	CRT-5	Netherlands	CRT-1	Thailand	CRT-3
Brazil	CRT-4	Hong Kong	CRT-2	New Zealand	CRT-2	Togo	CRT-5
British Virgin Islands	CRT-2	Hungary	CRT-3	Nicaragua	CRT-5	Trinidad and Tobago	CRT-4
Brunei Darussalam	CRT-4	Iceland	CRT-3	Nigeria	CRT-5	Tunisia	CRT-5
Bulgaria	CRT-4	India	CRT-4	North Macedonia	CRT-4	Turkey	CRT-4
Cambodia	CRT-5	Indonesia	CRT-4	Norway	CRT-1	Turks and Caicos	CRT-3
Cameroon	CRT-5	Iraq	CRT-5	Oman	CRT-4	Ukraine	CRT-5
Canada	CRT-1	Ireland	CRT-2	Pakistan	CRT-5	United Arab Emirates	CRT-3
Cayman Islands	CRT-2	Isle of Man	CRT-1	Panama	CRT-4	United Kingdom	CRT-1
Chile	CRT-2	Israel	CRT-3	Papua New Guinea	CRT-5	United States	CRT-1
China	CRT-3	Italy	CRT-2	Paraguay	CRT-4	Uruguay	CRT-4
Colombia	CRT-4	Jamaica	CRT-4	Peru	CRT-3	Uzbekistan	CRT-5
Cook Islands	CRT-3	Japan	CRT-2	Philippines	CRT-4	Venezuela	CRT-5
Costa Rica	CRT-4	Jersey	CRT-1	Poland	CRT-2	Vietnam	CRT-4
Côte d'Ivoire	CRT-5	Jordan	CRT-4	Portugal	CRT-3		

GUIDE TO BEST'S COUNTRY RISK TIERS

AM Best defines country risk as the risk that country-specific factors could adversely affect the claims paying ability of an insurer. Country risk is evaluated and factored into all of Best's Credit Ratings. Countries are placed into one of five tiers, ranging from "CRT-1" (Country Risk Tier 1) for countries with a stable environment with the least amount of risk, to "CRT-5" (Country Risk Tier 5) for countries that pose the most risk and, therefore, the greatest challenge to an insurer's financial stability, strength, and performance.
AM Best's Country Risk Tiers are not credit ratings and are not directly comparable to a sovereign debt rating, which evaluates the ability and willingness of a government to service its debt obligations.

Country Risk Tiers

Country Risk Tier	Definition
CRT-1	Predictable and transparent legal environment, legal system, and business infrastructure; sophisticated financial system regulation with deep capital markets; mature insurance industry framework
CRT-2	Predictable and transparent legal environment, legal system, and business infrastructure; sufficient financial system regulation; mature insurance industry framework
CRT-3	Developing legal environment, legal system, and business environment with developing capital markets; developing insurance regulatory structure
CRT-4	Relatively unpredictable and nontransparent political, legal, and business environment, with underdeveloped capital markets; partially to fully inadequate regulatory structure
CRT-5	Unpredictable and opaque political, legal, and business environment, with limited or nonexistent capital markets; low human development and social instability; nascent insurance industry

Country Risk Reports

AM Best Country Risk Reports are designed to provide a brief, high-level explanation of some of the key factors that determine a country's Country Risk Tier assignment. It is not intended to summarize AM Best's opinion on any particular insurance market or the prospects for that market.

Categories of Risk

Country Risk Reports provide "scores" for three categories of risk for each country: (1) Very Low; (2) Low; (3) Moderate; (4) High and (5) Very High.

Category of Risk	Definition
Economic Risk	Economic risk is the risk that fundamental weaknesses in a country's economy will cause adverse developments for an insurer. AM Best's assessment of economic risk evaluates the state of the domestic economy, government finances, and international transactions, as well as prospects for growth and stability.
Political Risk	Political risk is the risk that government or bureaucratic inefficiencies, societal tensions, inadequate legal system or international tensions will cause adverse developments for an insurer. Political risk comprises the stability of the government and society, the effectiveness of international diplomatic relationships, the reliability and integrity of the legal system and of the business infrastructure, the efficiency of the government bureaucracy, and the appropriateness and effectiveness of the government's economic policies.
Financial System Risk	Financial system risk (which includes both insurance and non-insurance financial system risk) is the risk that financial volatility may erupt because of inadequate reporting standards, a weak banking system or asset markets, or poor regulatory structure. It also takes into account the risk that the level of the insurance industry's development and public awareness, transparent and effective regulation and reporting standards, and a sophisticated regulatory body will contribute to a volatile financial system and compromise an insurer's ability to pay claims.

Political Risk Summary

To provide additional detail on the political risk in a given domicile, the Country Risk Reports include the Political Risk Summary. The Political Risk Summary is a radar chart that shows scores for nine different aspects of political risk, on a scale of 1 to 5, with 1 being the least amount of risk and 5 being the highest amount of risk.

Category	Definition
International Transactions Policy	Measures the effectiveness of the exchange rate regime and currency management
Monetary Policy	Measures the ability of a country to effectively implement monetary policy
Fiscal Policy	Measures the ability of a country to effectively implement fiscal policy
Business Environment	Measures the overall quality of the business environment, and ease of doing business
Labor Flexibility	Measures the flexibility of the labor market, including companies' ability to hire and fire employees
Government Stability	Measures the degree of stability in a government
Social Stability	Measures the degree of social stability, including human development and political rights
Regional Stability	Measures the degree of stability in the region
Legal System	Measures the transparency and level of corruption in the legal system

Country Risk Tier Disclosure

A Country Risk Tier (CRT) is not a credit rating; rather, it represents a component of AM Best's credit rating methodology that is applied to all insurers. A CRT is not a recommendation to purchase, hold, or terminate any security, insurance policy, contract, or any other financial obligation issued by a government, insurer, or other rated issuer, nor does it address the suitability of any particular policy, contract, or other financial obligation for a specific purpose or purchaser.

Best's Credit Rating Actions for January 20 - February 16, 2021

This edition lists all credit rating actions that occurred between January 20 and February 16, 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
⊕	H	Cigna Life Insurance Company of New York *New York Life Insurance Company*	006538	A++ aa+	Stable Stable	A u a u	Positive Positive	New York
⇅	L	Colonial Penn Life Insurance Company *CNO Financial Group, Inc.*	006240	A- a-	Positive Positive	A- a-	Stable Stable	Pennsylvania
⇥	L	First Assurance Life of America *Louisiana Dealer Services Insurance Inc.*	009125	NR nr		A- a-	Stable Stable	Louisiana
⚑	L	Great American Life Insurance Company *American Financial Group, Inc.*	006474	A+ u aa- u	Developing Developing	A+ aa-	Stable Stable	Ohio
New	L	Kuvare Life Re Ltd. *Kuvare Holdings LP*	095113	A- a-	Stable Stable			Bermuda
⊕	L	Life Insurance Company of North America *New York Life Insurance Company*	006645	A++ aa+	Stable Stable	A u a u	Positive Positive	Pennsylvania
⚑	L	Manhattan National Life Insurance Co *American Financial Group, Inc.*	006842	B++ u bbb+ u	Developing Developing	B++ bbb+	Stable Stable	Ohio
⚑	L	Monitor Life Insurance Co of New York *Fairfax Financial Holdings Limited*	008664	A- u a- u	Developing Developing	A- a-	Stable Stable	New York
—	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
⇥	L	Performance Life of America *Louisiana Dealer Services Insurance Inc.*	009325	NR nr		A- a-	Stable Stable	Louisiana
⊕	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 Heritage Life Insurance Company *United Heritage Mutual Holding Company*	006472	B++ bbb+	Positive Positive	B++ bbb+	Stable Stable	Idaho
⊕	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
⇥	L	Versant Life Insurance Company *Louisiana Dealer Services Insurance Inc.*	060339	NR nr		A- a-	Stable Stable	Mississippi
⇅	H	Washington National Insurance Company *CNO Financial Group, Inc.*	007218	A- a-	Positive Positive	A- a-	Stable Stable	Indiana
		AMERICAS PROPERTY/CASUALTY						
New	P	1842 Insurance Company *Harford Mutual Insurance Group, Inc.*	020868	A a	Stable Stable			Maryland

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	Alpha Property & Casualty Insurance Co *Kemper Corporation*	002634	A a	Stable Stable	A- a-	Positive Positive	Wisconsin
⇅	P	Brotherhood Mutual Insurance Company	000221	A- a-	Negative Negative	A- a-	Stable Stable	Indiana
⊕	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	Charter Indemnity Company *Kemper Corporation*	010419	A a	Stable Stable	A- a-	Positive Positive	Texas
⇅	P	Conifer Insurance Company *Conifer Holdings, Inc.*	000291	B++ bbb	Stable Stable	B++ bbb	Negative Negative	Michigan
⇅	P	Crusader Insurance Company *Unico American Corporation*	001889	B++ bbb	Negative Negative	B++ bbb	Stable Stable	California
⇥	P	Echelon Property & Casualty Insurance Co* *Lockhart Companies, Inc.*	012679	NR nr		C ccc	Negative Negative	Illinois
New	P	Everspan Indemnity Insurance Company *Ambac Financial Group, Inc.*	020948	A- a-	Stable Stable			Arizona
New	P	Everspan Insurance Company *Ambac Financial Group, Inc.*	000109	A- a-	Stable Stable	NR nr		Arizona
⊕	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	Genesee Patrons Cooperative Insurance Co	010562	B++ bbb	Stable Positive	B++ bbb	Stable Stable	New York
⊕	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	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

*Ratings were downgraded to C/ccc from C+/b- on February 5, 2021. Ratings were withdrawn on February 5, 2021

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	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
New	P	Pekin Select Insurance Company *Farmers Automobile Insurance Assn*	020770	A- a-	Stable Stable	NR nr		Illinois
⊕	C	PMG Assurance Ltd. *Sony Corporation*	086494	A a+	Stable Stable	A a	Stable Stable	Bermuda
⚑	P	Protective Insurance Company *Protective Insurance Corporation*	000784	A u a u	Positive Positive	A a	Negative Negative	Indiana
⚑	P	Protective Specialty Insurance Company *Protective Insurance Corporation*	013918	A u a u	Positive Positive	A a	Negative Negative	Indiana
⊕	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
⚑	P	Sagamore Insurance Company *Protective Insurance Corporation*	001840	A u a u	Positive Positive	A a	Negative Negative	Indiana
⇅	P	Sublimity Insurance Company *United Heritage Mutual Holding Company*	003614	B++ bbb	Stable Positive	B++ bbb	Stable Stable	Oregon
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
⊕	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	United Heritage Property & Casualty Co *United Heritage Mutual Holding Company*	010062	B+ bbb-	Positive Positive	B+ bbb-	Stable Stable	Idaho
⊕	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
⇅	P	White Pine Insurance Company *Conifer Holdings, Inc.*	004127	B++ bbb	Stable Stable	B++ bbb	Negative Negative	Michigan
EUROPE, MIDDLE EAST & AFRICA								
⇅	C	CICA Re	093852	B bb+	Positive Positive	B bb+	Stable Stable	Togo
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

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
ASIA-PACIFIC								
⇅	P	Hotai Insurance Co., Ltd. *Ho Tai Motor Co., Ltd.*	086271	A- a-	Positive Positive	A- a-	Stable Stable	Taiwan
AMERICAS								
⇅	P	AVLA Seguros de Crédito y Garantía S.A. *AVLA S.A.*	094888	B++ bbb+	Stable Negative	B++ bbb+	Stable Stable	Chile
⇅	P	Grupo Mexicano de Seguros, S.A. de C.V. *GMS Valore, S.A. de C.V.*	077263	B++ bbb+	Positive Positive	B++ bbb+	Stable Stable	Mexico
⇅	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
⇅	Conifer Holdings, Inc.	052626	bb	Stable	bb	Negative	Michigan
⊕	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
⚑	Protective Insurance Corporation	058332	bbb u	Positive	bbb	Negative	Indiana
⇅	Unico American Corporation	058482	bb	Negative	bb	Stable	California

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.

New Securities

Date Issued	Rating	Outlook/ Implication	Amount (millions)	Coupon	Security	Maturity
AMB #: 051116	**LIBERTY MUTUAL GROUP INC.**					
2/1/21	bb+	Stable	800 (USD)	4.3%	Junior Subordinated Notes	2/1/61
AMB #: 059221	**NEW YORK LIFE GLOBAL FUNDING**					
1/21/21	aaa	Stable	200 (USD)	1.684%	Senior Secured Fixed Rate	1/27/31
AMB #: 058496	**W. R. BERKLEY CORPORATION**					
2/3/21	bbb+	Stable	300 (USD)	4.125%	Subordinated Debentures	2/3/61

Issue Credit Rating Actions

Rating Date	Current Rating	Current Outlook/ Implication	Previous Rating	Previous Outlook/ Implication	Security
AMB #: 058030	**CNO FINANCIAL GROUP, INC.**				
1/28/21	bbb-	Positive	bbb-	Stable	Senior Unsecured Notes
1/28/21	bb+	Positive	bb+	Stable	Subordinated Debentures
AMB #: 051078	**INFINITY PROP AND CAS CORP**				
1/28/21	bbb	Stable	bbb-	Positive	Senior Unsecured Notes
AMB #: 058711	**KEMPER CORPORATION**				
1/28/21	bbb	Stable	bbb-	Positive	Senior Unsecured Notes

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.

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.

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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

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GUIDE TO BEST'S ISSUE CREDIT RATINGS– (IR)

A Best's Issue Credit Rating (IR) is an independent opinion of credit quality assigned to issues that gauges the ability to meet the terms of the obligation and can be issued on a long- or short-term basis (obligations with original maturities generally less than one year). An IR assigned to a specific issue is an opinion of the ability to meet the ongoing financial obligations to security holders when due. As such, an IR is an opinion regarding the relative future credit risk. Credit risk is the risk that an issue may not meet its contractual financial obligations as they come due. The rating does not address any other risk, including, but not limited to, liquidity risk, market value risk or price volatility of rated obligations. The rating 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. In addition, an IR may be displayed with a rating identifier or other modifier that denotes a unique aspect of the opinion.

Best's Long-Term Issue Credit Rating (Long-Term IR) Scale

Rating Categories	Rating Symbols	Rating Notches*	Category Definitions
Exceptional	aaa	-	Assigned to issues where, in our opinion, there is an exceptional ability to meet the terms of the obligation.
Superior	aa	aa+ / aa-	Assigned to issues where, in our opinion, there is a superior ability to meet the terms of the obligation.
Excellent	a	a+ / a-	Assigned to issues where, in our opinion, there is an excellent ability to meet the terms of the obligation.
Good	bbb	bbb+ / bbb-	Assigned to issues where, in our opinion, there is a good ability to meet the terms of the obligation; however, the issue is more susceptible to changes in economic or other conditions.
Fair	bb	bb+ / bb-	Assigned to issues where, in our opinion, fair credit characteristics exist, generally due to a moderate margin of principal and interest payment protection or other issue-specific concerns that may be exacerbated by a vulnerability to economic changes or other conditions.
Marginal	b	b+ / b-	Assigned to issues where, in our opinion, marginal credit characteristics exist, generally due to a modest margin of principal and interest payment protection or other issue-specific concerns that may be exacerbated by an enhanced vulnerability to economic changes or other conditions.
Weak	ccc	ccc+ / ccc-	Assigned to issues where, in our opinion, weak credit characteristics exist, generally due to a minimal margin of principal and interest payment protection or other issue-specific concerns that may be exacerbated by a limited ability to withstand adverse changes in economic or other conditions.
Very Weak	cc	-	Assigned to issues where, in our opinion, very weak credit characteristics exist, generally due to an extremely minimal margin of principal and interest payment protection or other issue-specific concerns that may be exacerbated by a limited ability to withstand adverse changes in economic or other conditions.
Poor	c	-	Assigned to issues where, in our opinion, poor credit characteristics exist, generally due to an extremely minimal margin of principal and interest payment protection or other issue-specific concerns that may be exacerbated by an extremely limited ability to withstand adverse changes in economic or other conditions.

** Best's Long-Term Issue 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 Issue Credit Rating (Short-Term IR) Scale

Rating Categories	Rating Symbols	Category Definitions
Strongest	AMB-1+	Assigned to issues where, in our opinion, the strongest ability to repay short-term debt obligations exists.
Outstanding	AMB-1	Assigned to issues where, in our opinion, an outstanding ability to repay short-term debt obligations exists.
Satisfactory	AMB-2	Assigned to issues where, in our opinion, a satisfactory ability to repay short-term debt obligations exists.
Adequate	AMB-3	Assigned to issues where, in our opinion, an adequate ability to repay short-term debt obligations exists; however, adverse economic conditions likely will reduce the capacity to meet financial commitments.
Questionable	AMB-4	Assigned to issues that, in our opinion, contain questionable credit characteristics and are vulnerable to adverse economic or other external changes, which could have a marked impact on the ability to meet financial commitments.

Long- and Short-Term Issue Credit Non-Rating Designations

Designation Symbols	Designation Definitions
d	Status assigned to issues in default on payment of principal, interest or other terms and conditions, or when a bankruptcy petition or similar action has been filed and made public; or where the issuing entity has been designated as impaired (e/f [Issuer Credit] or E/F [Financial Strength] designations) or in default (d [Issuer Credit] designation).
s	Status assigned to rated issues to suspend the outstanding IR when sudden and significant events have occurred 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 issues that are not rated; may include previously rated issues or issues that have never been rated by AM Best.

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Best's Calendar

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.*

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