



A.M. Best

2017 Insurance Market Briefing

Stefan Holzberger
Chief Rating Officer

October 11, 2017



Agenda

2:00 – 2:40 Market Review and Trends: Property & Casualty, Reinsurance and ILS

2:45 – 3:20 Market Review and Trends: Life, Annuity & Health

3:30 – 4:30 Benchmarking A.M. Best's Ratings

4:30 – 6:30 Cocktail Reception

Personal Lines Market

John Andre

Managing Director, P/C Ratings



Personal Segment Trends

	Actual – Full Year				Actual – 6 Months	
	2013	2014	2015	2016	1H2016	1H2017
Change in NPW (%)	7.4	(1.6)	7.5	4.9	5.1	5.1
Combined Ratio (Reported)	98.2	98.9	99.6	102.5	102.8	103.7
Less: Catastrophe Losses	4.5	5.5	4.5	5.9	7.2	9.0
Less: A&E Losses	0.2	0.1	0.1	0.1	0	0
Combined Ratio (Normalized)	93.5	93.3	95.0	96.6	95.6	94.7
Pre-tax Return on Net Premiums Earned (ROR) (%)	7.3	6.9	5.7	2.6	2.0	1.5
After-tax Return on Surplus (ROE) (%)	7.5	6.8	6.5	2.7	1.1	1.2

Segment Outlook– Personal Lines

Headwinds

Auto combined ratios above break-even

Auto frequency & severity pressures with some improvement noted mid year

Increasing frequency and severity of cats – HIM Impacts

Favorable Reserve Releases Diminishing

Low levels of investment income

Tailwinds

Excess capital

Favorable reinsurance pricing (for now)

Rate increases taken in Auto

Strong Core Property performance

Advanced pricing segmentation / Technological Advances

Balance sheets are strong and well supportive of current ratings. Performance, profile and ERM are largely in line with expectations. Stable outlook assigned for 2017

Personal Lines

- Prior to the August-September cat events, six month catastrophe losses for the segment increased
 - \$3.4 billion (32% greater than the prior year)
 - Driven by both frequency as well as severity of losses
 - Added 9 points to the personal lines combined ratio
 - By far, the worse first half result in years

Automobile

- Mutuals still dominating the personal lines segment
 - State Farm Mutual had a \$7 billion auto loss but still added approximately \$5 billion to PHS at year end 2016
- Personal showed some improvement through six months as many are picking up good sized rate increases
 - Auto Liab DPW up 8.8% & Auto PD 7.8% at 6/30/17
- Technology/pricing sophistication gap has narrowed for regional companies, but scale remains a key differentiator

InsurTech

- On August 28, 2017, A.M. Best assigned an initial ICR of “a-” to HiRoad Assurance Company, a subsidiary of State Farm Mutual Automobile Insurance Company
 - Will operate exclusively in Rhode Island, where State Farm doesn’t have captive agents
 - HiRoad will market business to more “mobile-centric” consumers
 - This venture has been entered into with BlueOwl LLC, in which SF has a limited liability interest
 - Blue Owl has built technology, data and product solutions for HiRoad

Florida Ratings

- A.M. Best has ratings coverage on just four of the top twenty Florida property writers (based on those that have the majority of their book written in the state). These companies, many of which are less than ten years old, have opted not to engage with AMB for rating coverage
- Two Florida-centric primary companies had ratings affirmed in September. One with a negative outlook (significantly driven by AOB issue, as well as by Matthew and Irma losses)

Comments on Hurricane Irma Impacts on AMB Ratings

- What are we asking rating companies?
 - Gross and net losses (including reinstatement costs)
 - Claims experience regarding access to independent field adjusters, trends and volume
 - Business continuity as it pertains to building closures and offsite locations

Hurricane Irma

- While a significant event, gross losses have been within reinsurance limits for all A.M. Best rated entities
- Most companies have moderate retentions with the majority of losses being paid by the reinsurers
- The FHCF layers will be hit though not completely exhausted
- More of an earnings event than a capital event
- Liquidity concerns partially offset by cash calls

Catastrophe Programs

- AMB rated companies have purchased protection to limits beyond the 1:100 return period
- All programs appear to be working as intended
- All companies purchase coverage for multiple events making use of reinstatements and drop-down features. Some have purchased additional coverage for a 3rd and 4th event post-Irma
- Companies are also being protected by their purchase of cat aggregate programs

Hurricane Irma Summary

- Irma acted as a good test for newly formed companies that have not yet been hit with a significant event
- Of the newly formed entities that A.M. Best rates, reinsurance programs appear to be responding as intended and providing solid risk mitigation, which goes the same for the established entities as well

Hurricane Irma Summary (cont.)

- Will take time to assess the ultimate impact on all Florida entities (not just AMB rated). Potential for consolidation as companies assess their risk appetites and position in the market
- Too soon to tell if a shift in reinsurance pricing could impact companies risk appetites

Hurricane Maria– Puerto Rico and the Caribbean

- Similar concerns as Florida concerning gross losses, net losses and reinsurance costs
- Coverage bought beyond 1 in 100
- Some companies are buying third event covers
- Most balance sheets can absorb insured losses
- Liquidity concerns are being offset by cash call provisions in reinsurance contracts
- Some companies with access to capital if necessary
- Business continuity issues are a challenge

Hurricane Maria– Puerto Rico and the Caribbean

- Maria will likely be a wind event (CAT 5)
- Less than half (maybe a third) of the homes in PR are insured
- Majority of losses will be BI and contingent BI with the magnitude of insured loss depending on the amount and time covered
- Economic losses will far exceed insured due to low take up rates and the extent of the damages to infrastructure (power, roads, airports, ports) and tourism
- Minimal flood (FIP) take up in PR. Likely even less in the USVI

Hurricane Maria– Puerto Rico and the Caribbean

- After discussions with the market, the AIR range for PR range from \$34 million to \$72 million appears to be too high
- Structural damage has occurred but not as much as the news reports have indicated
- While the risk-adjusted capital of a few companies may have been weakened; there have been no rating actions at this time
- Our analysis is continuing

Commercial Lines

Jennifer Marshall
Director, P/C Ratings



Agenda

Financial Overview and Outlook

Loss Reserves

Workers' Compensation

Commercial Auto

Catastrophes

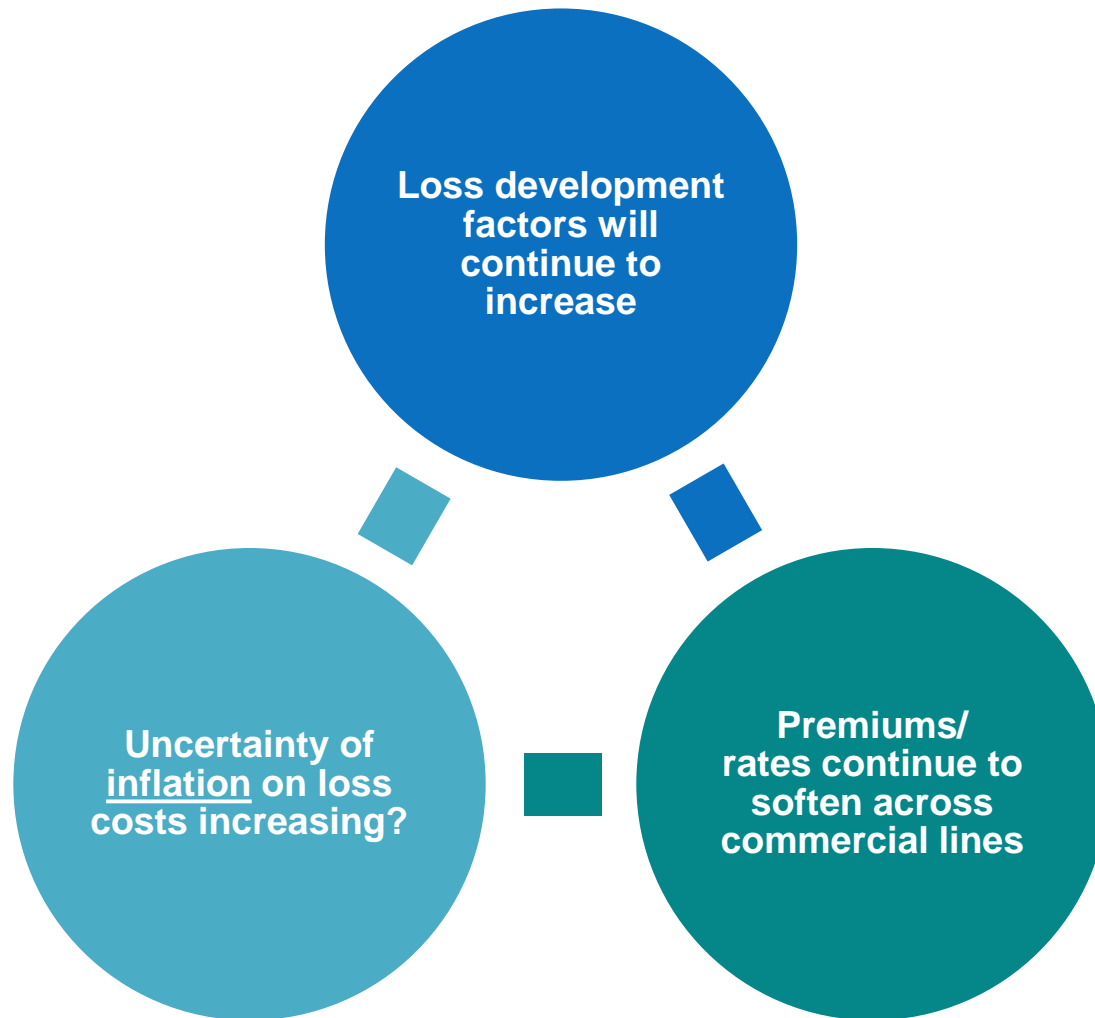
Commercial Segment Trends

	Actual – Full Year				Actual – 6 Months	
	2013	2014	2015	2016	1H2016	1H2017
Change in NPW (%)	2.4	4.0	1.1	0.6	1.4	1.3
Combined Ratio (Reported)	96.5	96.6	97.0	99.7	96.8	96.4
Less: Catastrophe Losses	3.3	2.5	2.1	3.0	4.0	3.5
Less: A&E Losses	1.2	0.9	0.6	0.8	0.5	0.5
Combined Ratio (Normalized)	92.0	93.2	94.3	95.9	92.3	92.5
Pre-tax Return on Net Premiums Earned (ROR) (%)	13.1	12.4	10.9	12.4	14.6	14.1
After-tax Return on Surplus (ROE) (%)	9.3	9.2	8.1	8.2	4.9	4.1

Segment Outlook– Commercial Lines

Headwinds	Tailwinds
Intensifying price competition	Abundance of capital -- ??
Decreasing reserve releases	Conservative investment profile
Low investment yields	Generally adequate ERM
Outsized catastrophe losses	Modest increase in interest rates
Unusual level of non-cat large losses	Favorable reinsurance pricing -- ??
Elevated frequency and severity in Commercial Auto	
<p>Unusually active hurricane season will pressure 2017 results even for market leaders, although most balance sheets are solid. Companies with concentration in cat-impacted areas more likely to face ratings pressure. Some market following companies feeling pressure from declining rates, emerging loss trends and low investment yields. Maintain negative outlook.</p>	

Loss Reserves– Ongoing Concerns



Loss Reserves– Observations

**Most companies
continue to report
favorable development**

**Increasing number of
companies reporting
overall adverse
development**

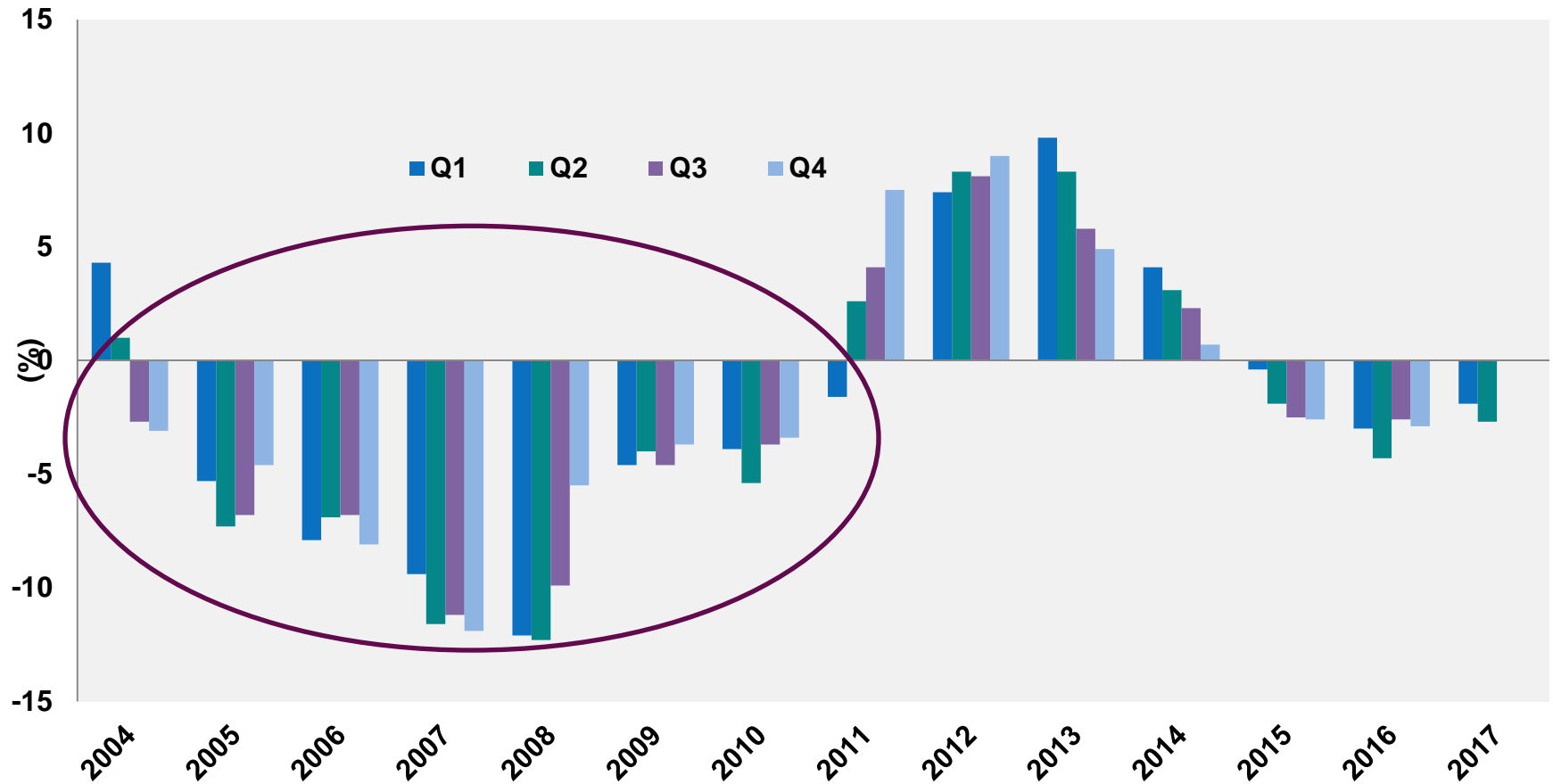
**A number of companies
strengthened
commercial casualty
reserves in 2016**

All of above = Greater Uncertainty/Volatility

Workers Compensation

- Premium growth slowing, but continues mostly due to exposure growth
- Trend of favorable development being maintained
- Calendar year direct loss ratio still improving

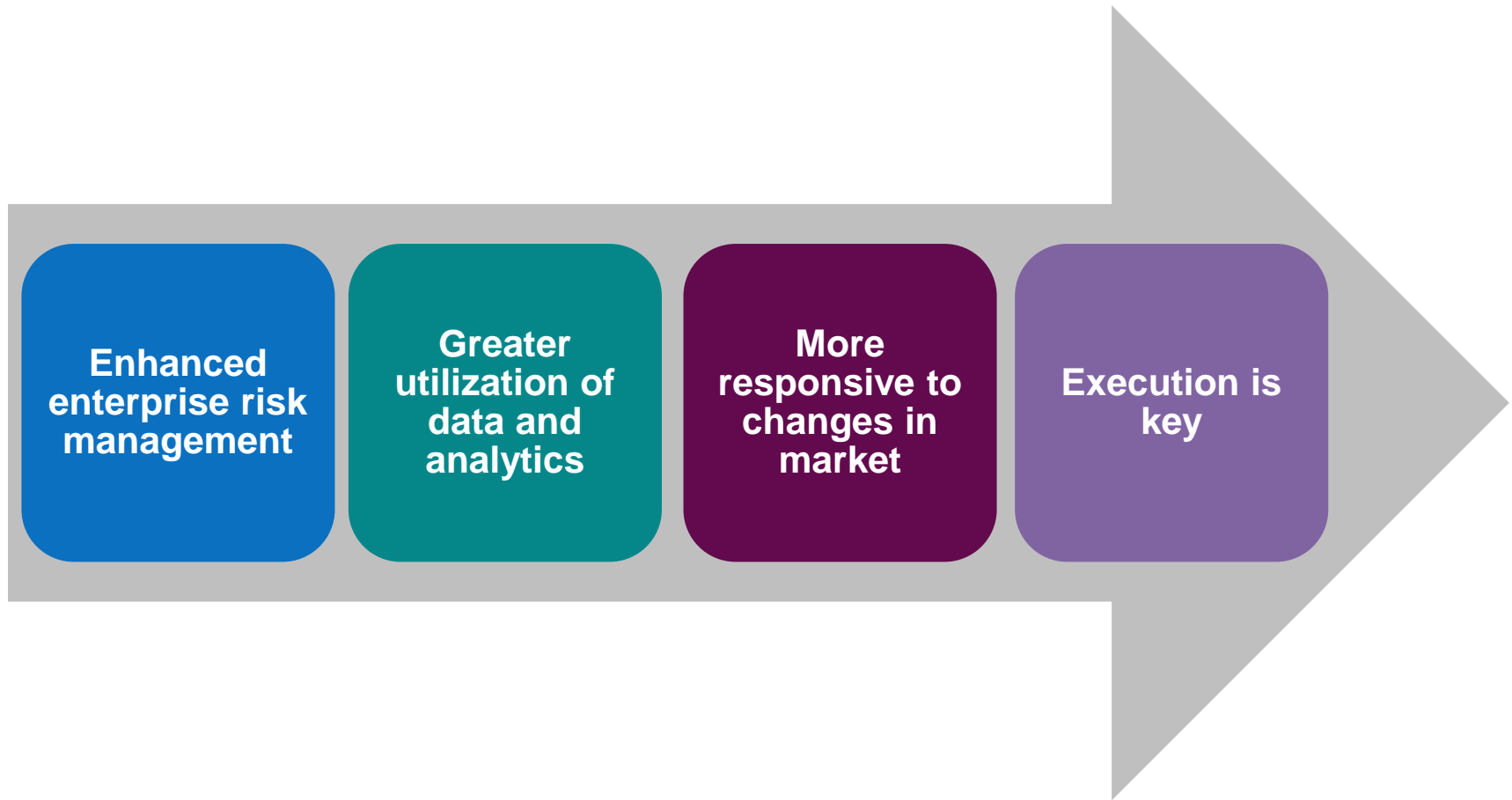
Workers' Comp – Quarterly Price Trends



Source: Council of Insurance Agents & Brokers (CIAB)



Workers' Comp – Why Today Seems Different



Commercial Auto

- Rate increases accelerating
- Adverse development continues
 - AY 2016 was worse than AY 2015
 - More adverse development at 12 months for AY 2015 than 2014
- After peaking in 2016, A.M. Best expects combined ratio for the line to improve marginally in 2017, reflecting rate increases

3Q2017 Catastrophes

- Through 2Q17, worse than recent years but slightly better than at 2Q16
- Harvey, Irma and Maria losses will be material for earnings, but not expected to be capital issue for the industry
- 3Q Earnings most impacted, but do expect some companies to have substantial impact on full year earnings
- Even among rated companies with concentrated exposure, expect very few (if any) rating actions

3Q2017 Catastrophes – Observations

- Companies more cautious about pre-announcing losses
- Claims staff adequate for two simultaneous losses
- Maria commercial losses mitigated by
 - Concentration of insureds in large cities
 - Construction
- Big unknown for Maria – Business interruption for manufacturing operations

Appendix

- Loss Reserves
- Workers Comp
- Commercial Auto

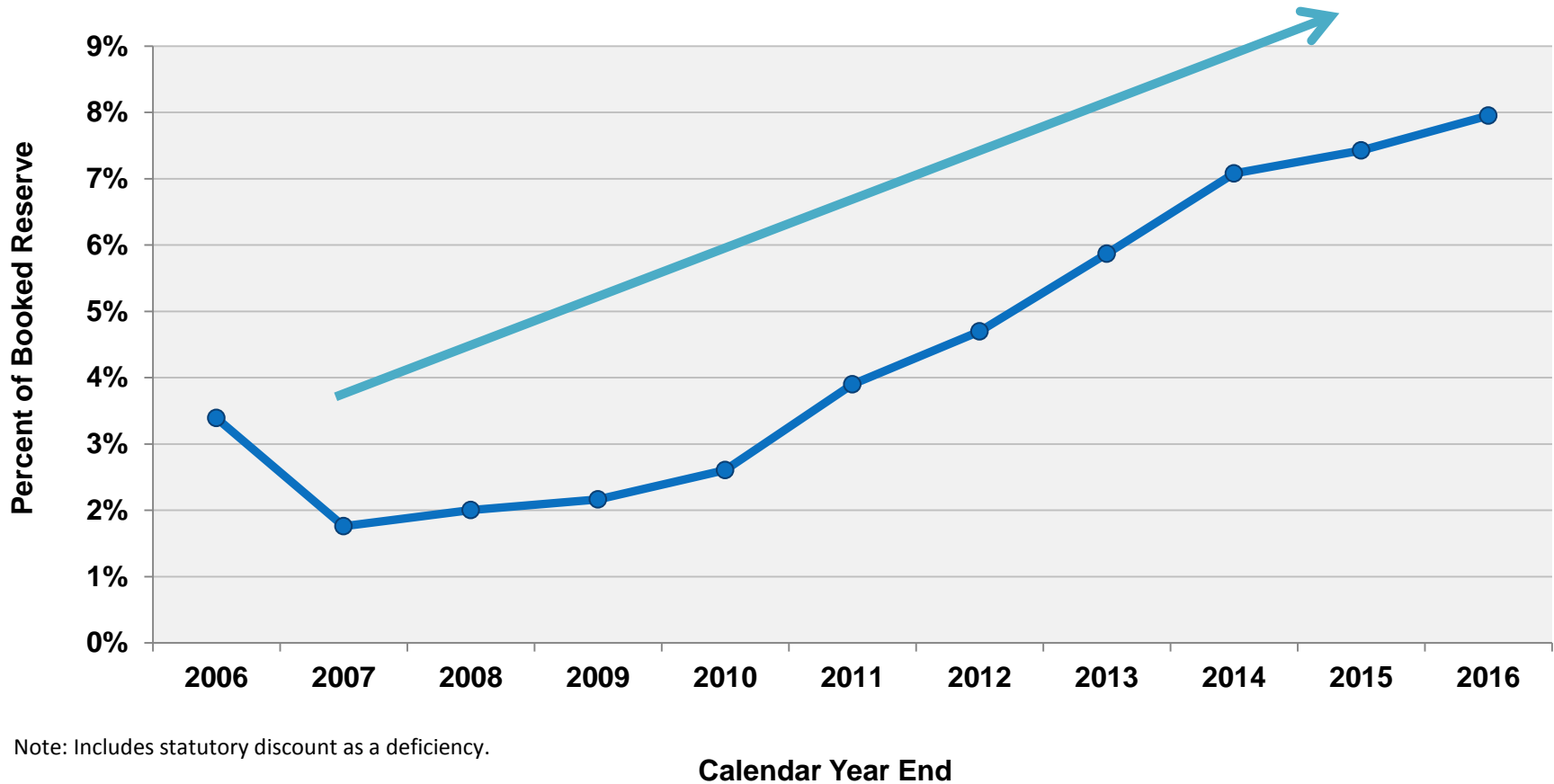
AMB Loss & LAE Reserve Adequacy by Commercial Line of Business

Product Line	Estimated Reserve Deficiency @ 12/15 (\$B)	Estimated Reserve Deficiency @ 12/16 (\$B)
Workers' Compensation	20.1	22.1
Other/Products Liability	7.2	9.0
Commercial Multiple Peril	1.7	2.2
Commercial Auto Liability	1.9	2.1
Medical Professional Liability	-2.3	-2.2
All Other Lines (Personal Lines, Reinsurance)	-0.5	0.8
Total Core Reserves	28.1	34.0
Asbestos & Environmental	17.6	14.9
Total	45.7	48.9

Note: Includes statutory discount as a deficiency.

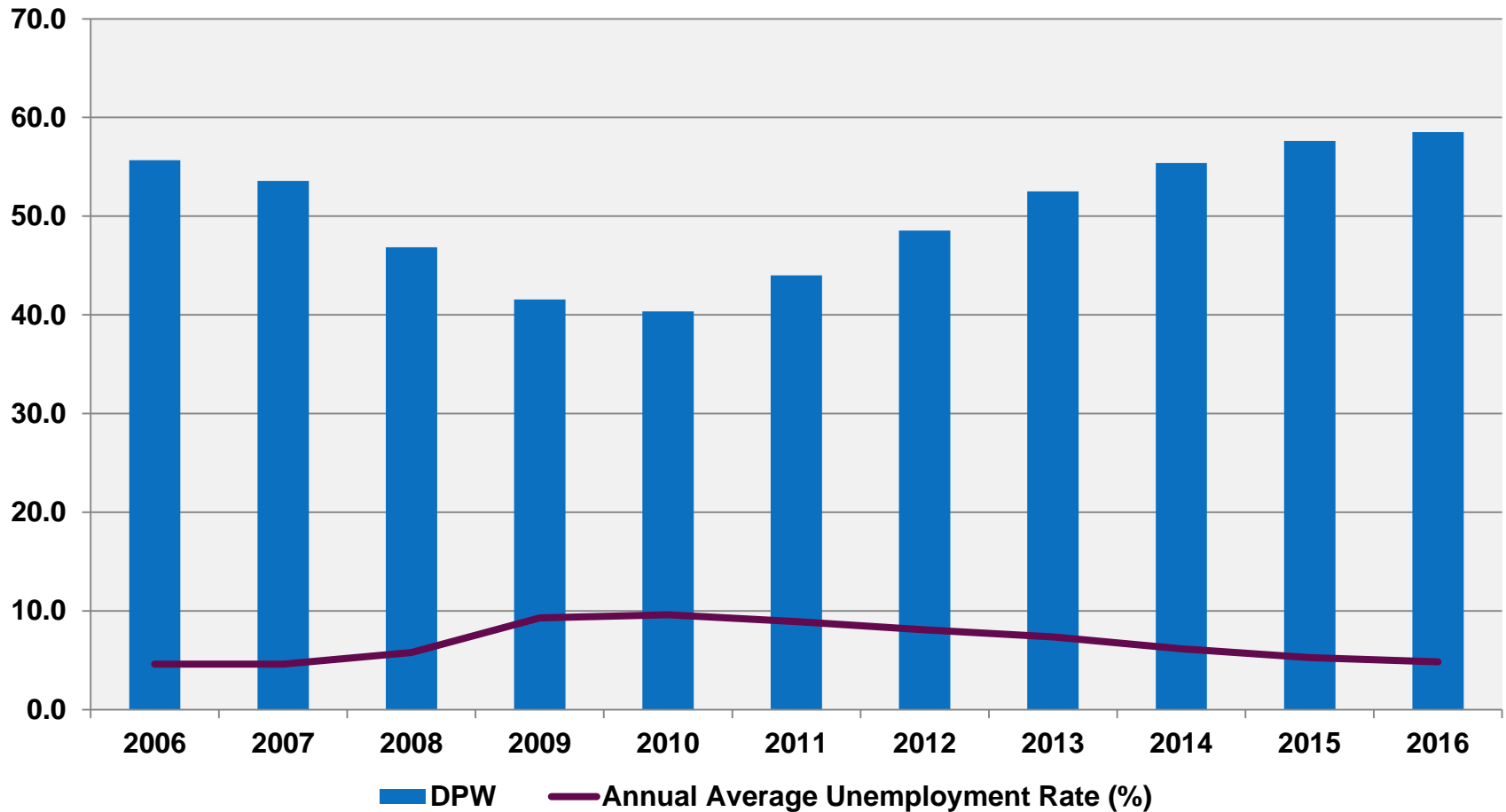


AMB Industry Loss & LAE Reserve Adequacy Deficiency % Over Time



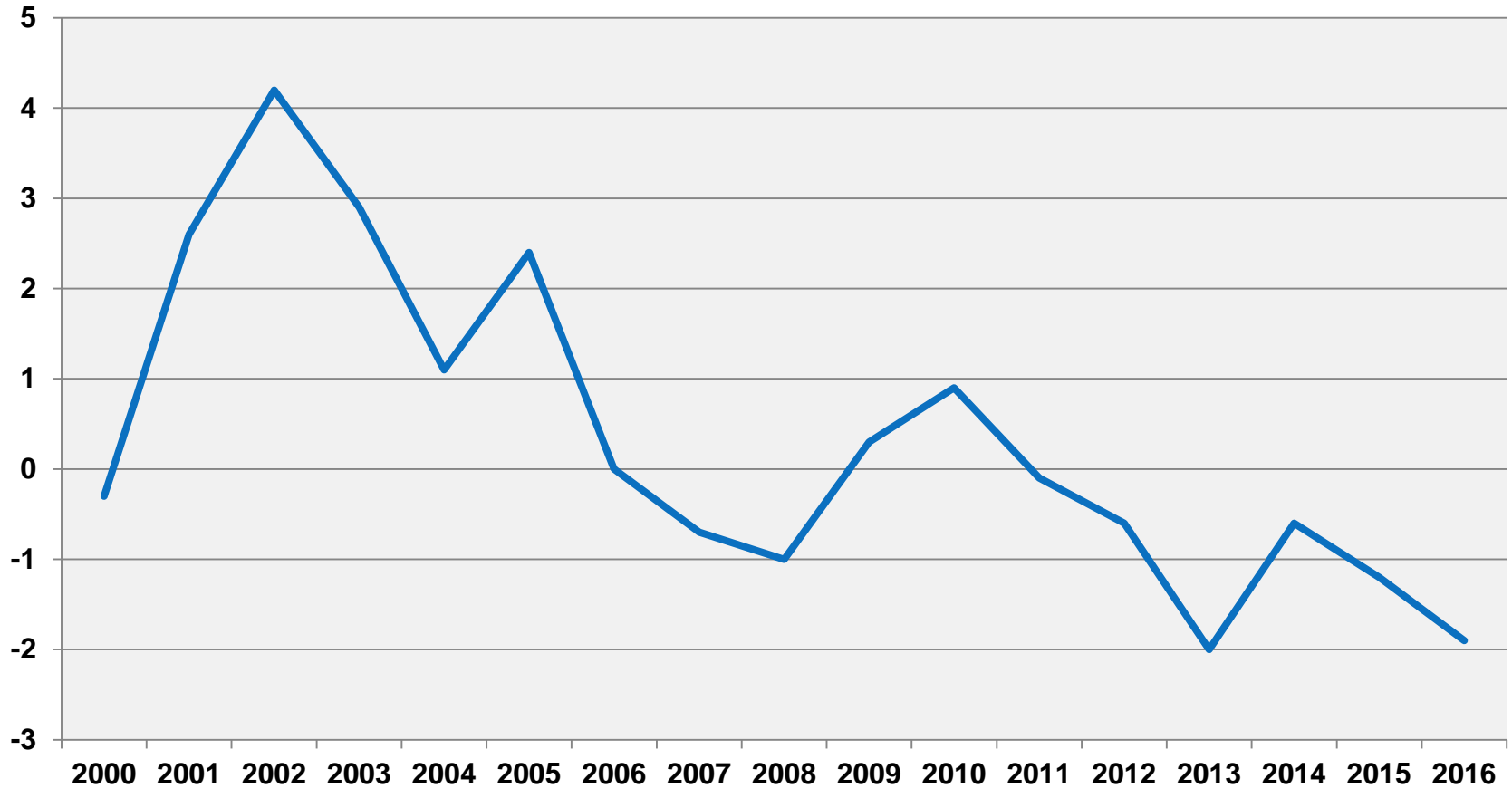
Note: Includes statutory discount as a deficiency.

Employment Effects on Premium

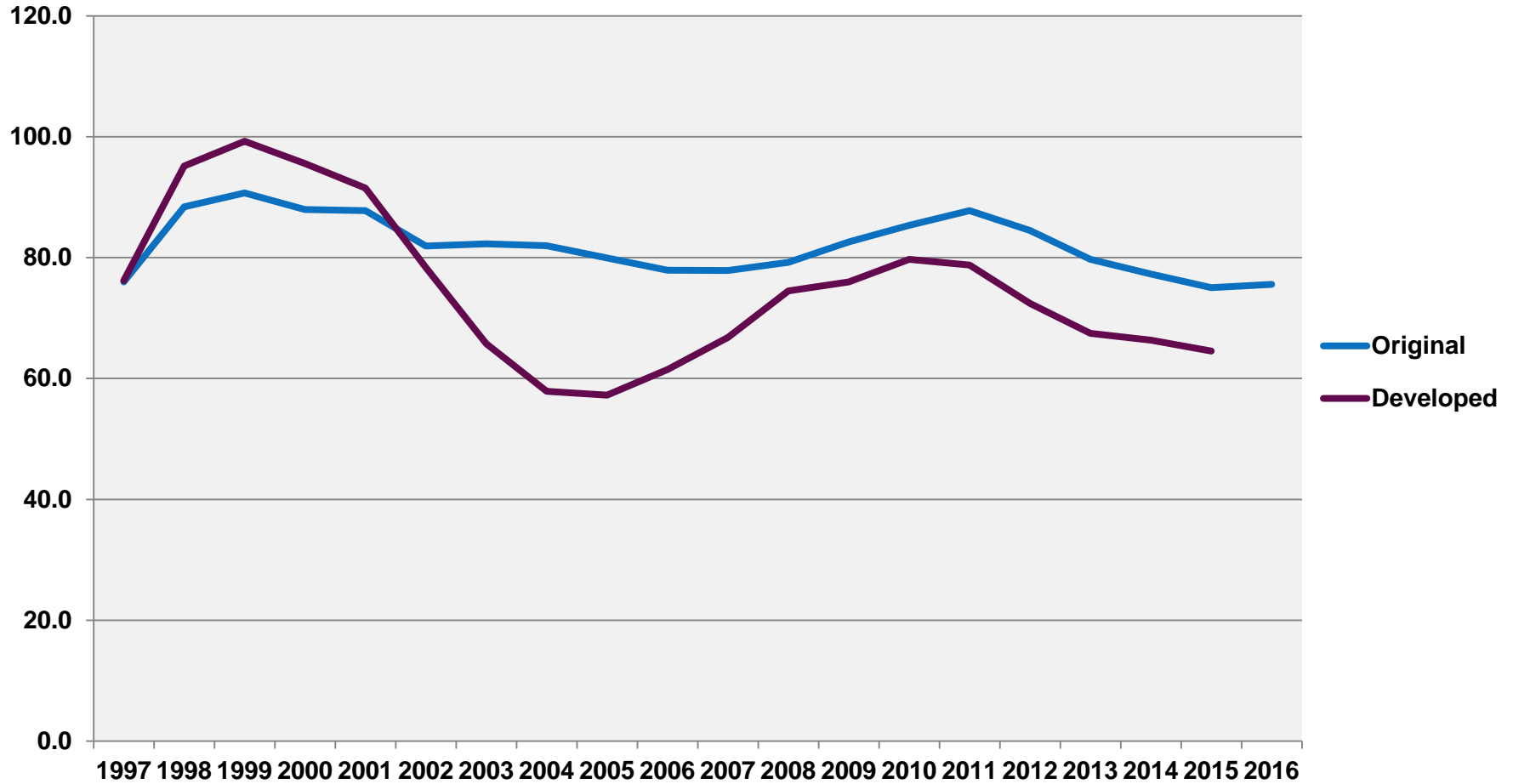


WC– Reserve Development Trends

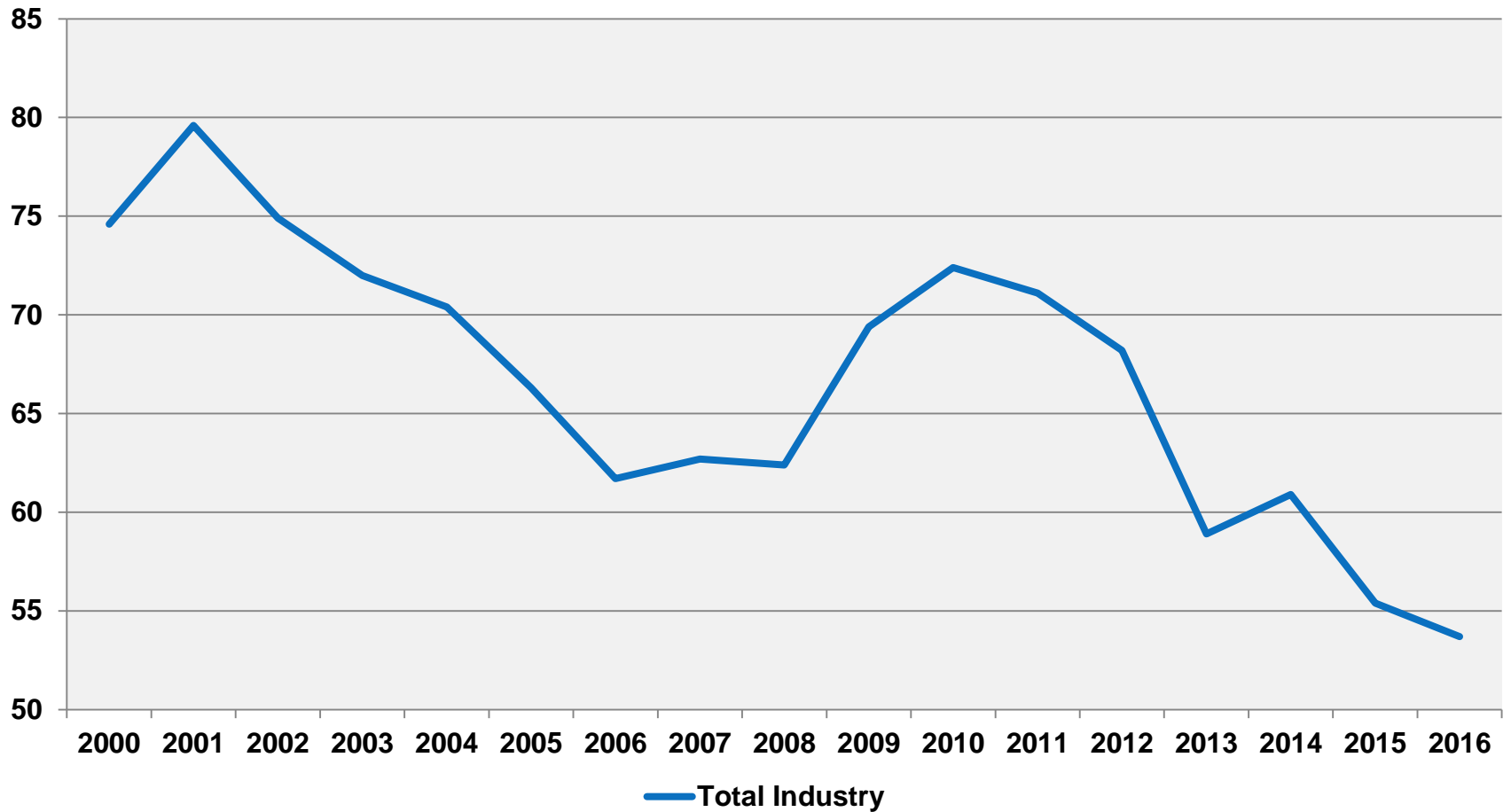
1 Year Development



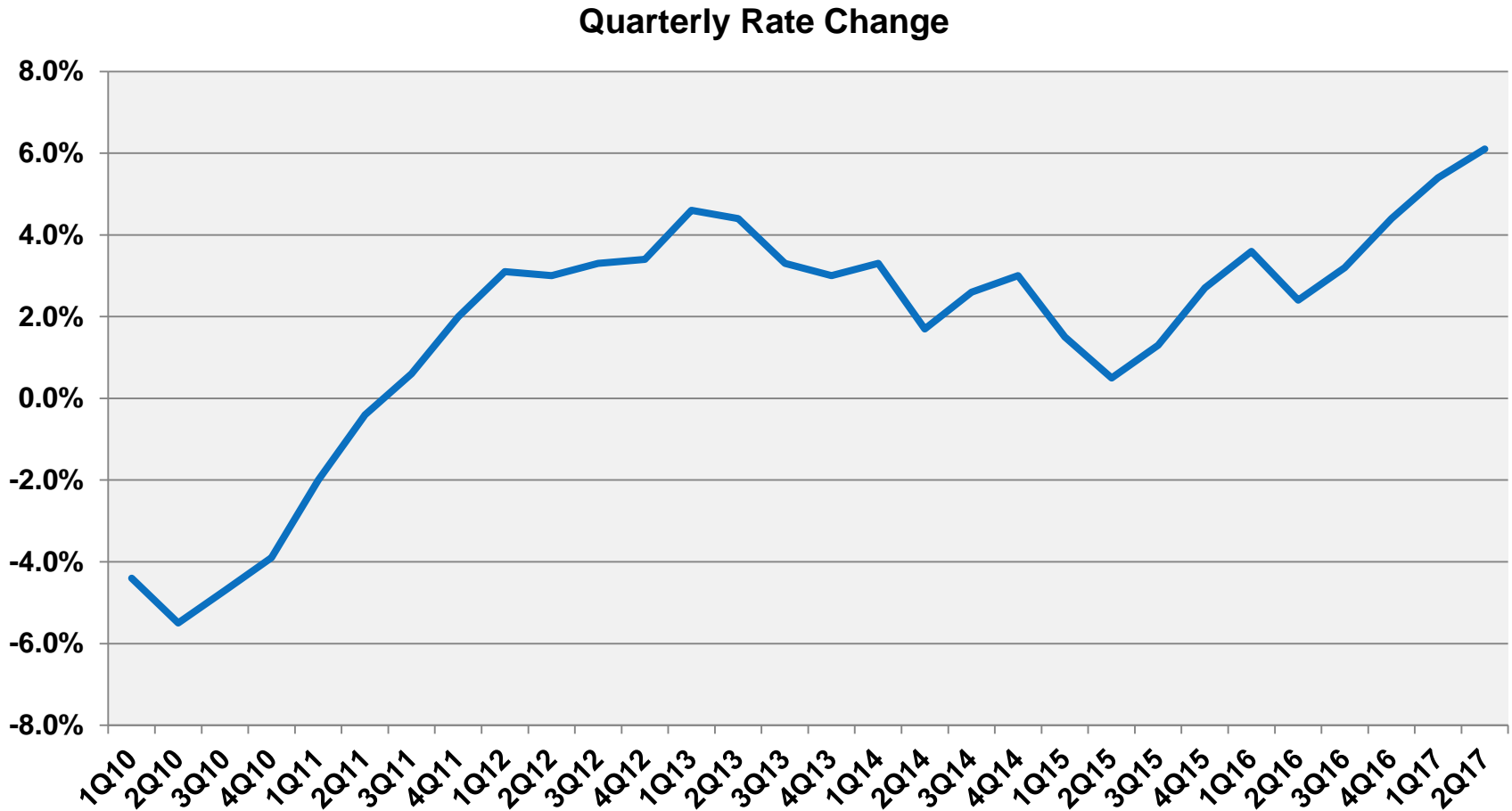
WC– Accident Year Development Trends



WC– Pure Net Loss Ratio



Commercial Auto Rate Change by Quarter

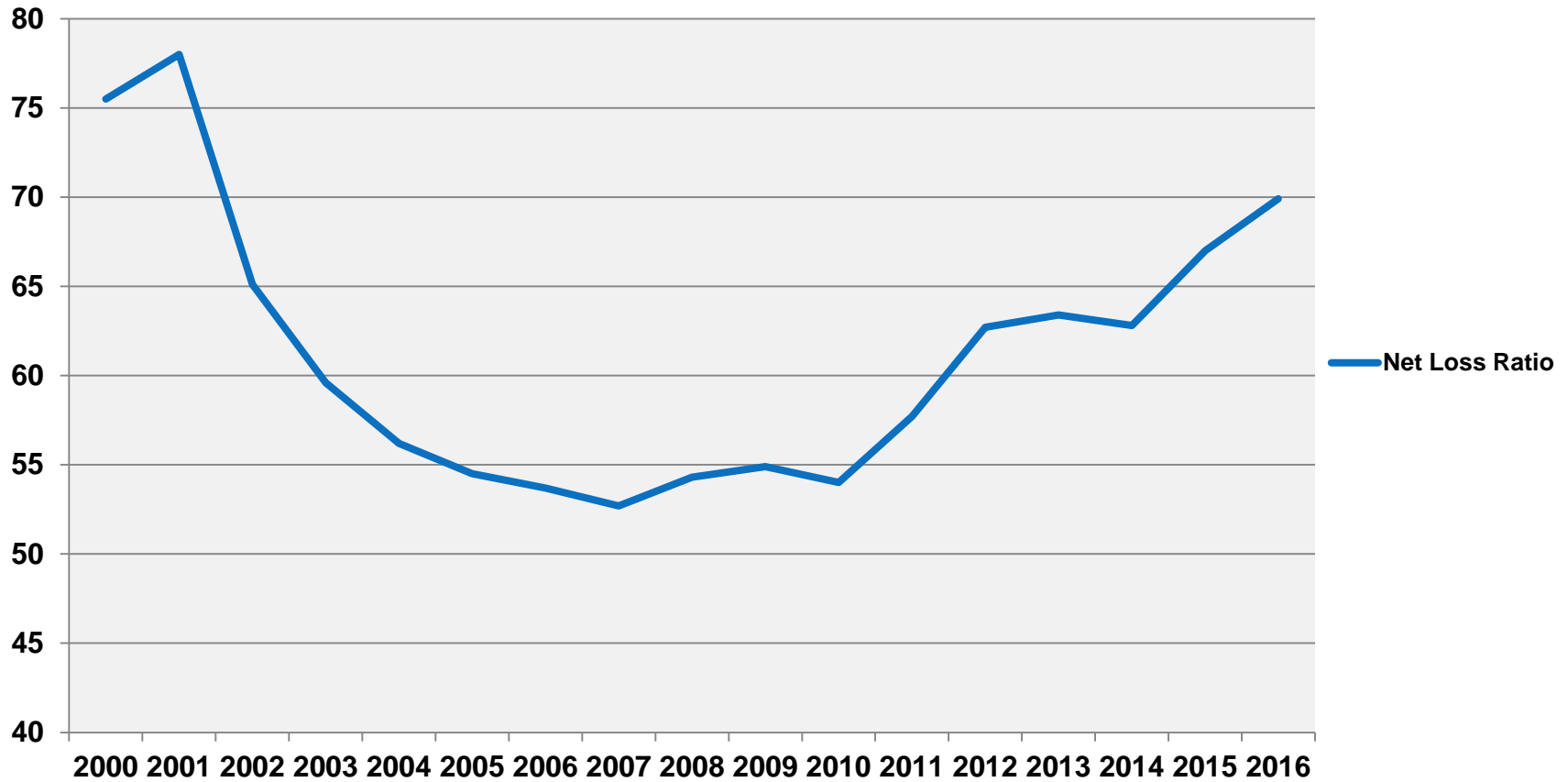


Source: Council of Insurance Agents and Brokers



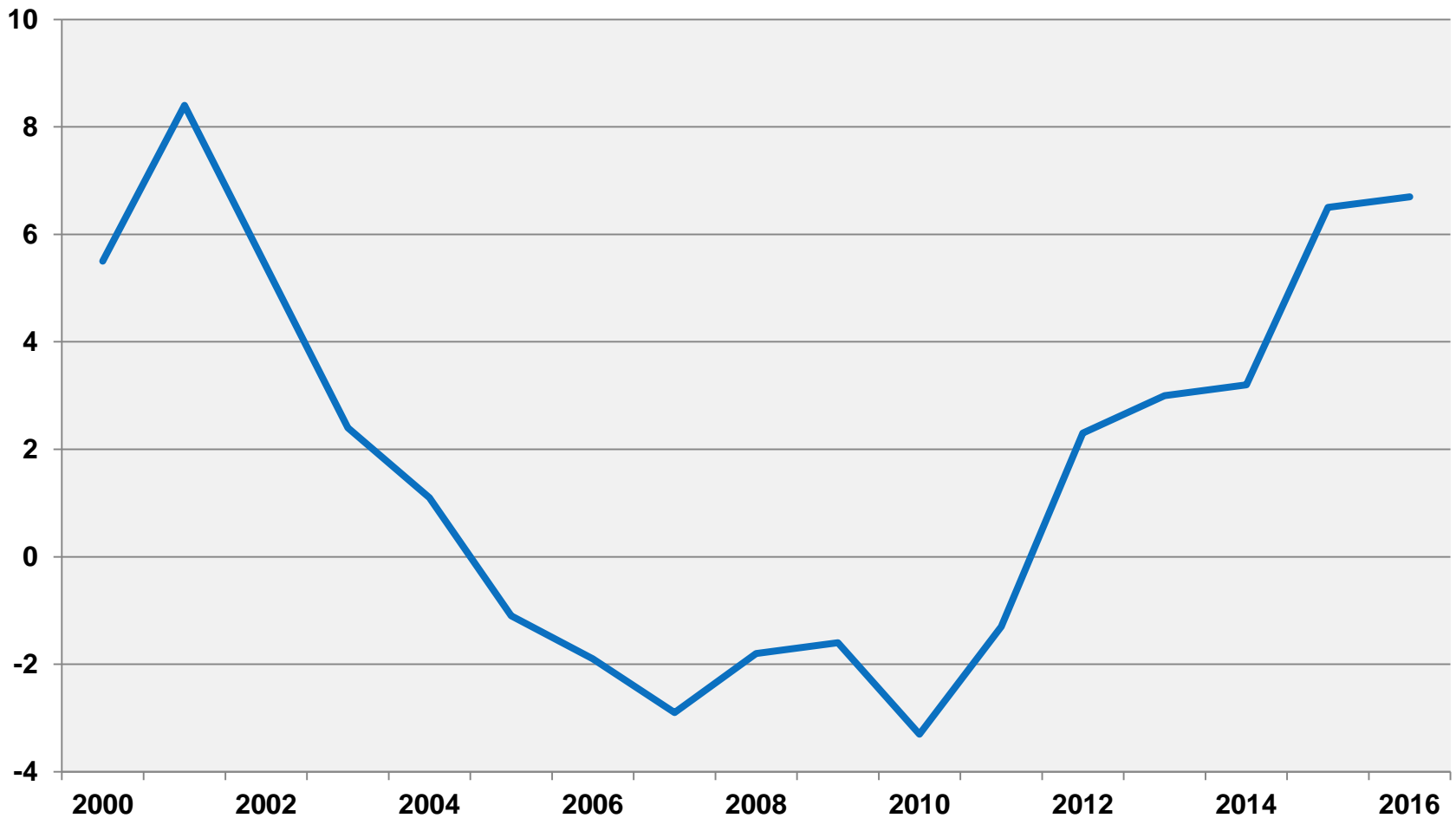
Commercial Auto Pure Net Loss Ratio

Net Loss Ratio



Commercial Auto– Reserve Trends

1 Yr. Development (% in Calendar Year)



Reinsurance Market

Robert DeRose
Senior Director



Agenda

Global Reinsurance Results and Trends

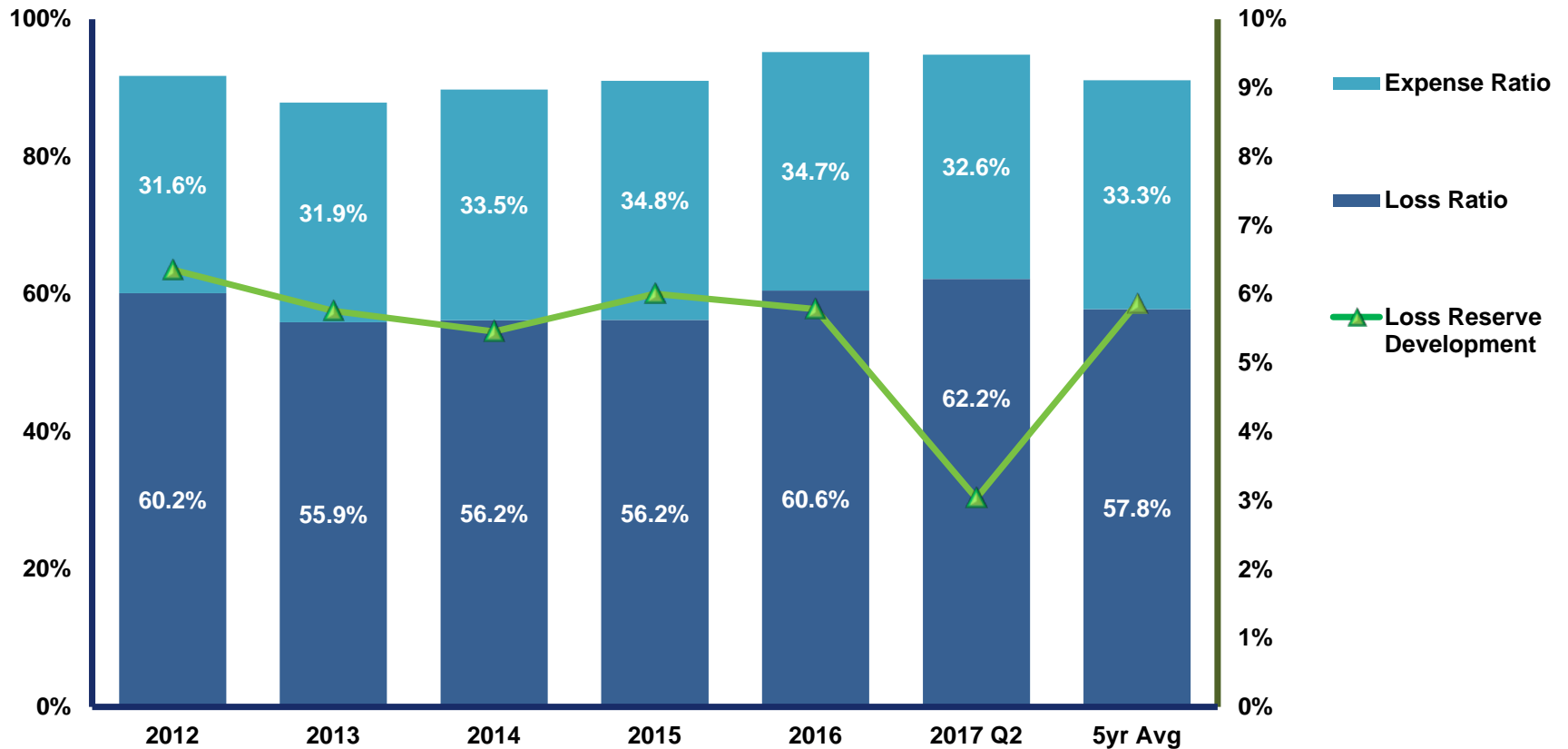
Market Capacity

Global Market Developments

Reinsurance Sector Outlook

Global Reinsurance Results and Trends

Global Market Trends



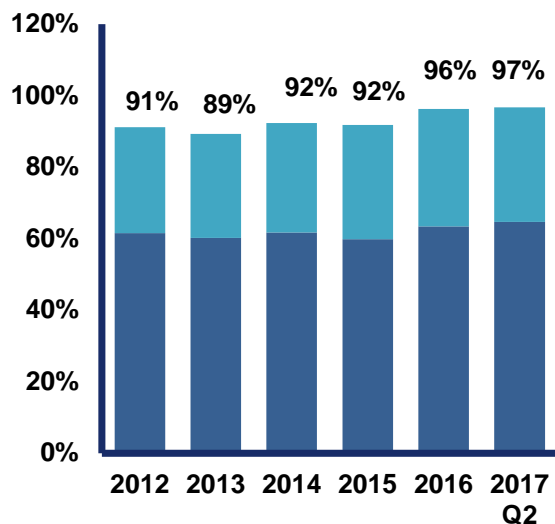
Source: A.M. Best Data and Research



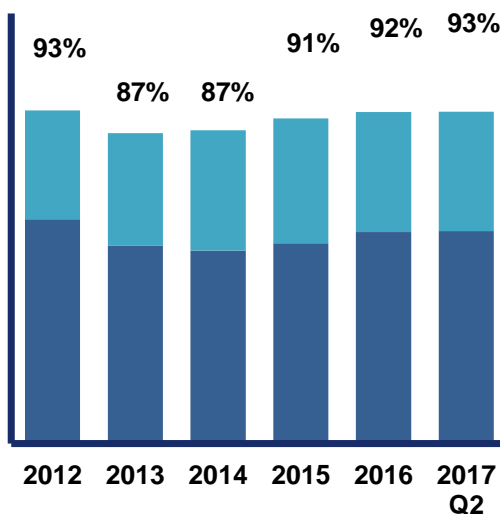
Global Market Trends

Combined Ratios by Reinsurance Sector

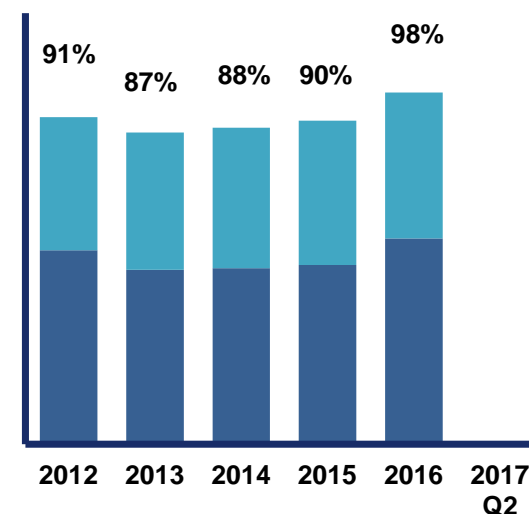
European “Big Four”



U.S. & Bermuda



Lloyd’s



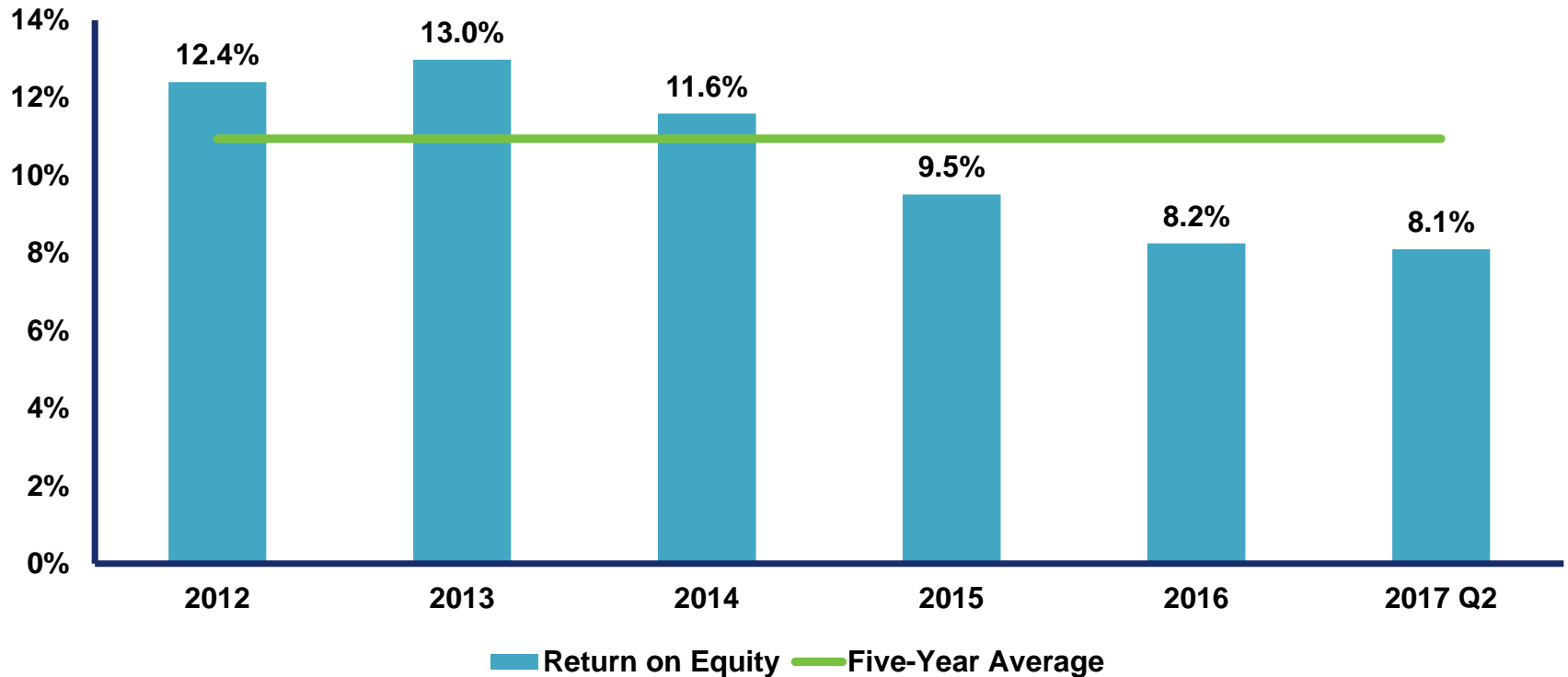
■ Loss Ratio
■ Expense Ratio

Source: A.M. Best Data and Research



Global Market Trends

Return on Equity (2012 to present) and Five-Year Average



Source: A.M. Best Data and Research



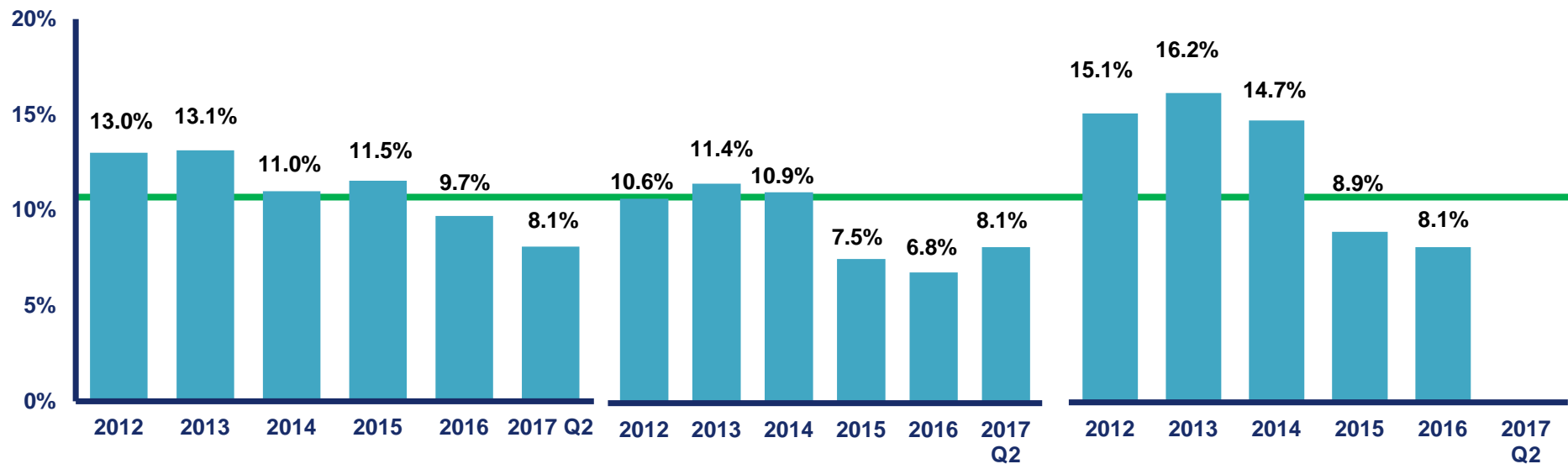
Global Market Trends

Return on Equity by Reinsurance Sector

European “Big Four”

U.S. & Bermuda

Lloyd’s

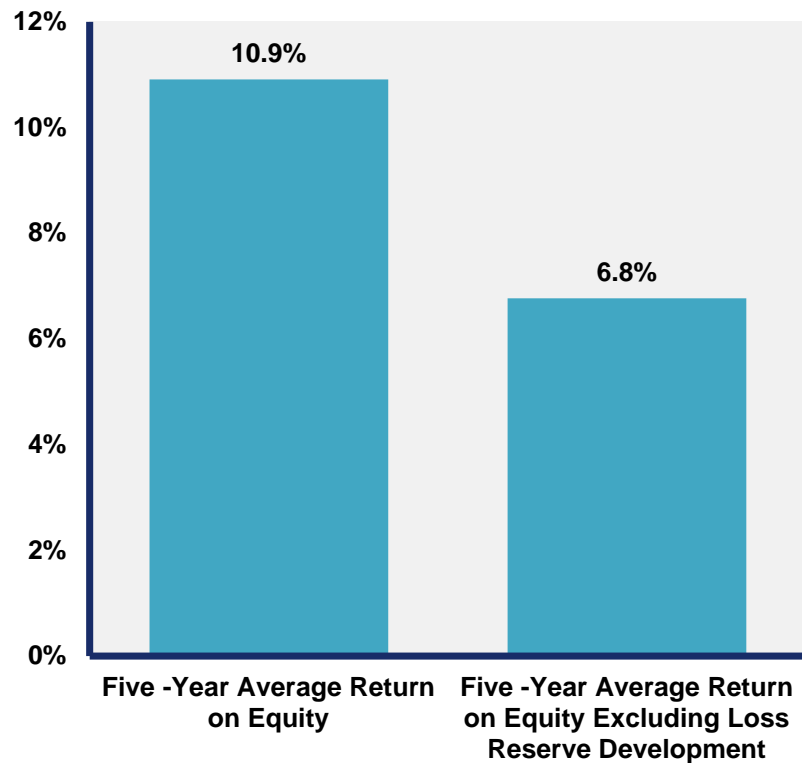


Source: A.M. Best Data and Research



Global Market Trends

Global Reinsurance Market

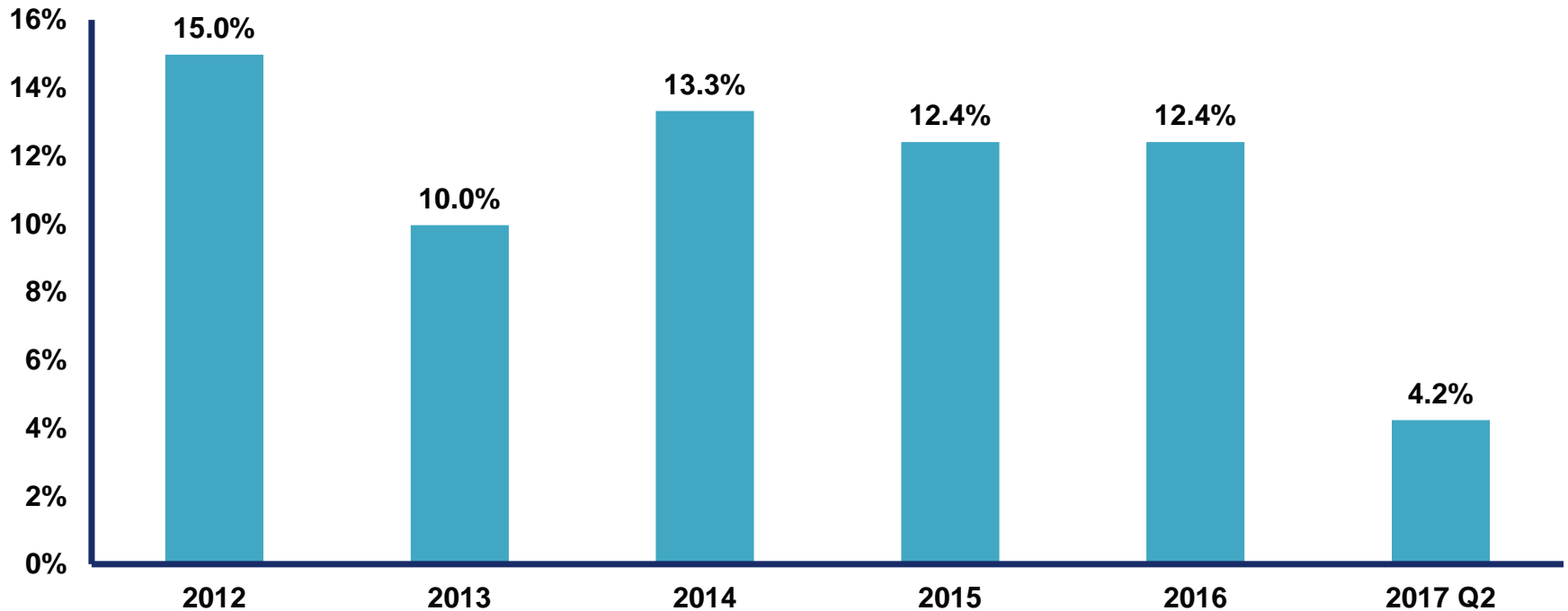


Source: A.M. Best Data and Research



Global Market Trends

Operating Cash Flow as a Percentage of Equity

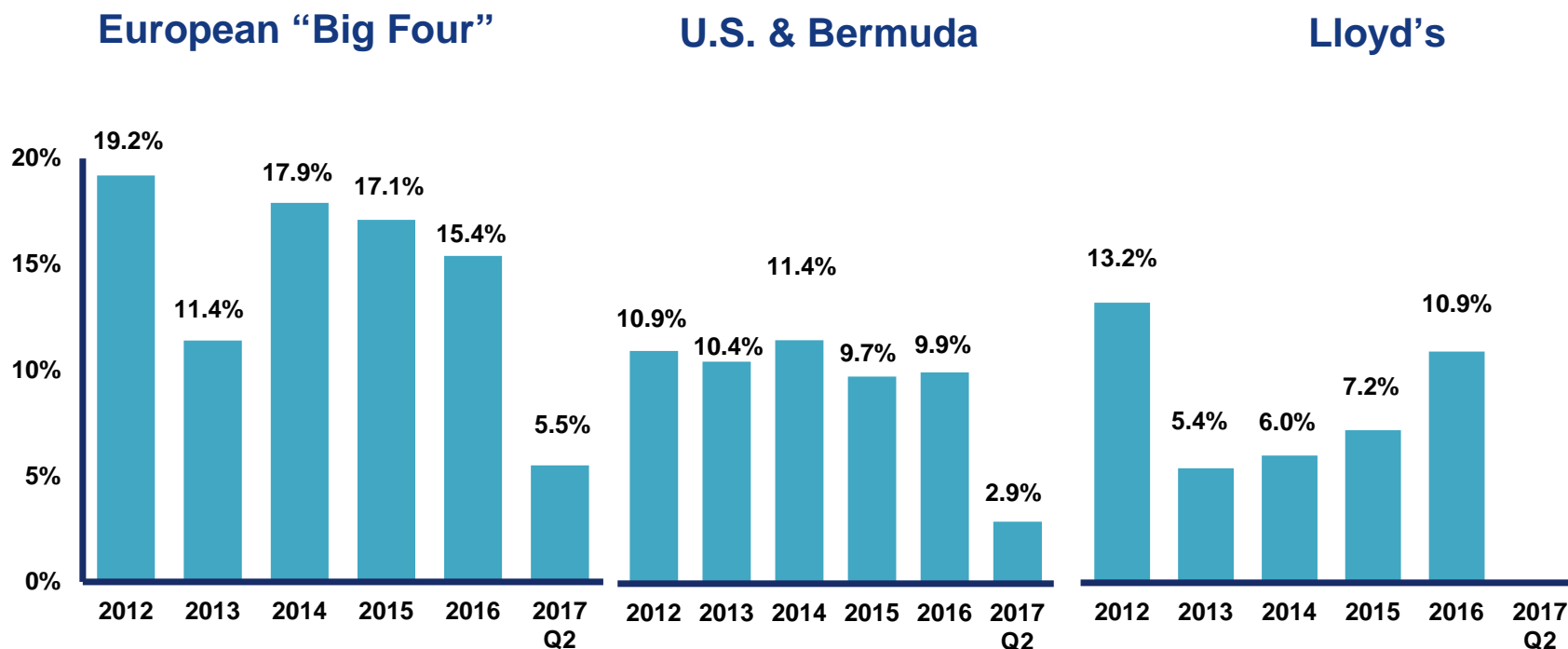


Source: A.M. Best Data and Research



Global Market Trends

Operating Cash Flow as a Percentage of Equity by Reinsurance Sector



Source: A.M. Best Data and Research



Market Capacity

Global Market Trends

Top 10 Global Reinsurance Groups – Non-Life

Swiss Re Ltd.

Munich Reinsurance Company

Lloyd's

Hannover Ruck SE

Berkshire Hathaway Inc.

SCOR S.E.

Transatlantic Holdings, Inc

Everest Re Group Ltd.

PartnerRe Ltd.

XL Group plc

Top 10 Global Reinsurance Groups – Life

Munich Reinsurance Company

Swiss Re Ltd.

Reinsurance Group of America Inc.

SCOR S.E.

Hannover Ruck SE

Great West Lifeco

Berkshire Hathaway Inc.

Pacific Life Corp

PartnerRe Ltd.

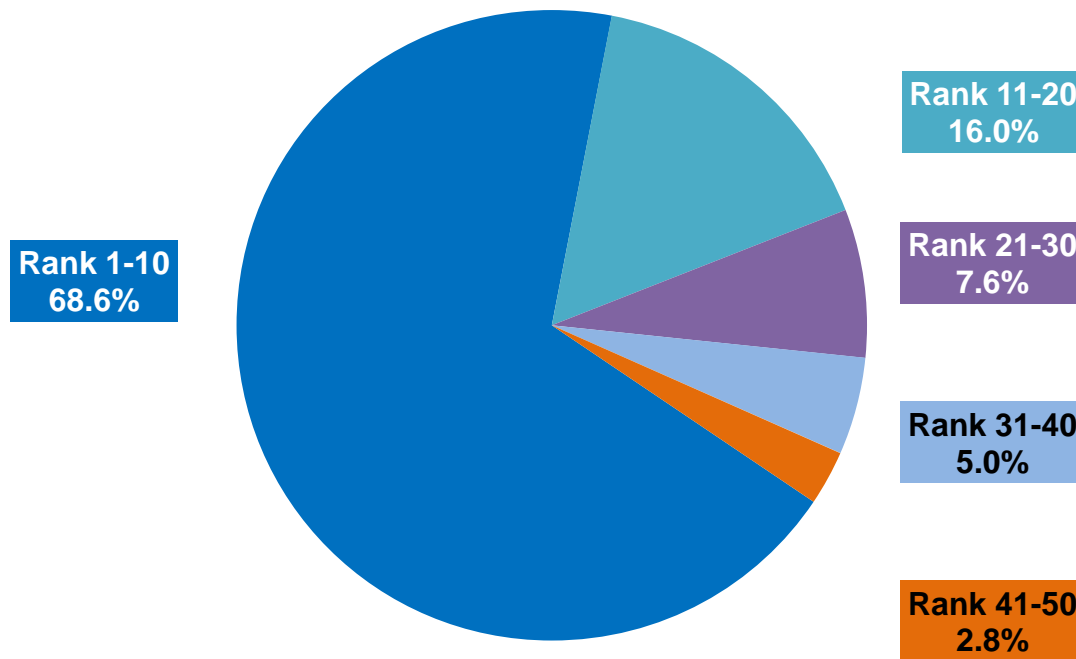
Assicurazioni Generali SpA

Source: A.M. Best Data and Research. Ranked by unaffiliated gross premium written in 2016.



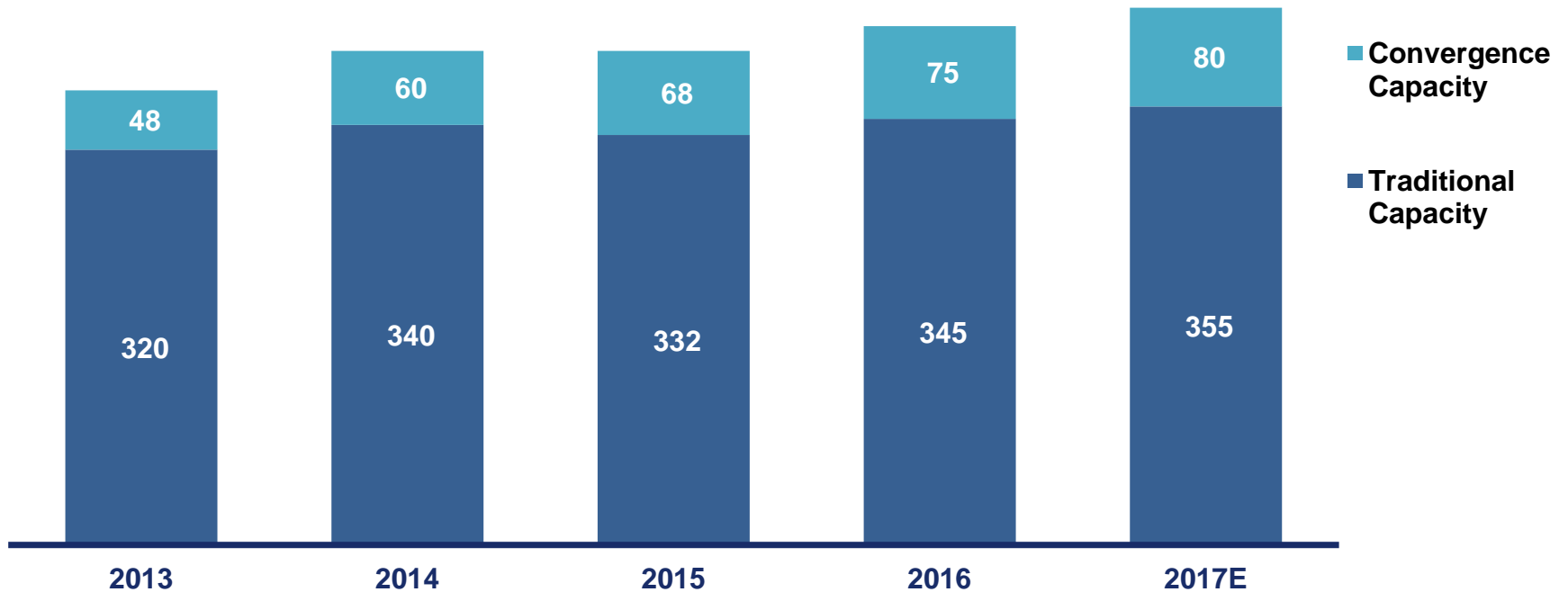
Global Market Trends

Life and Non-Life Reinsurance GPW Distribution by Ranking



Global Market Trends

Estimate for Total Dedicated Reinsurance Capacity (USD billions)

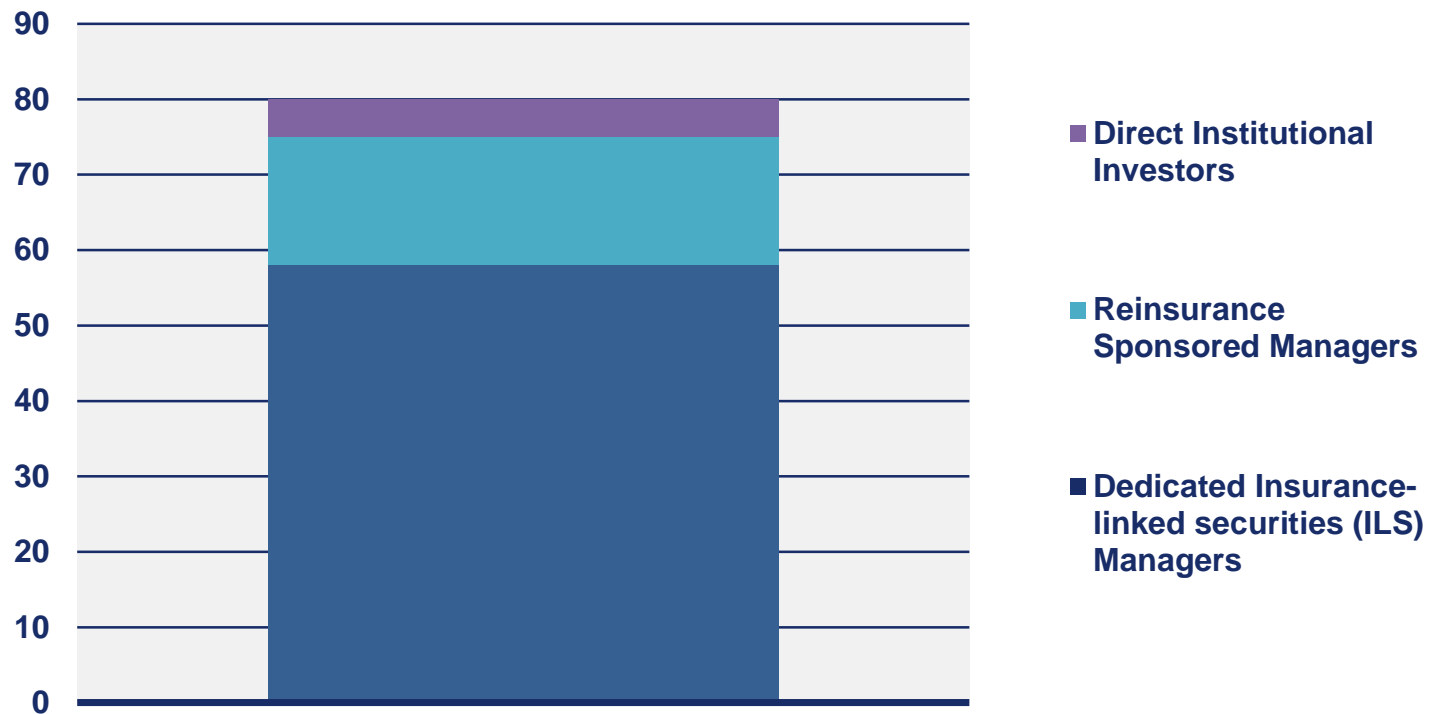


Notes and Sources: Estimates by Guy Carpenter and A.M. Best



Global Market Trends

Convergence Capacity (2017 estimated) (USD billions)



Notes and Sources: Estimates by Guy Carpenter and A.M. Best

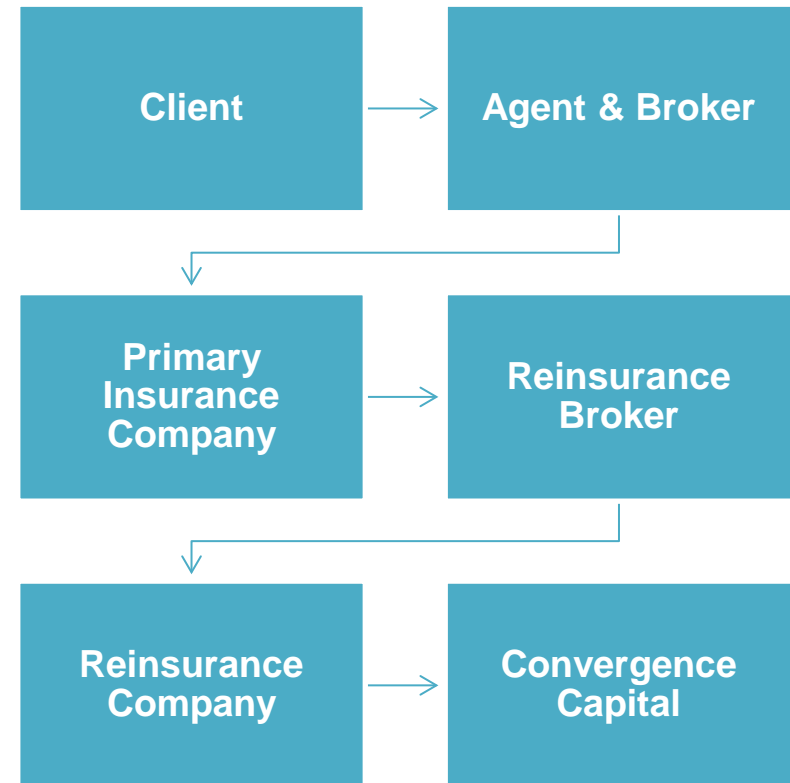


Global Market Developments

Global Market Trends

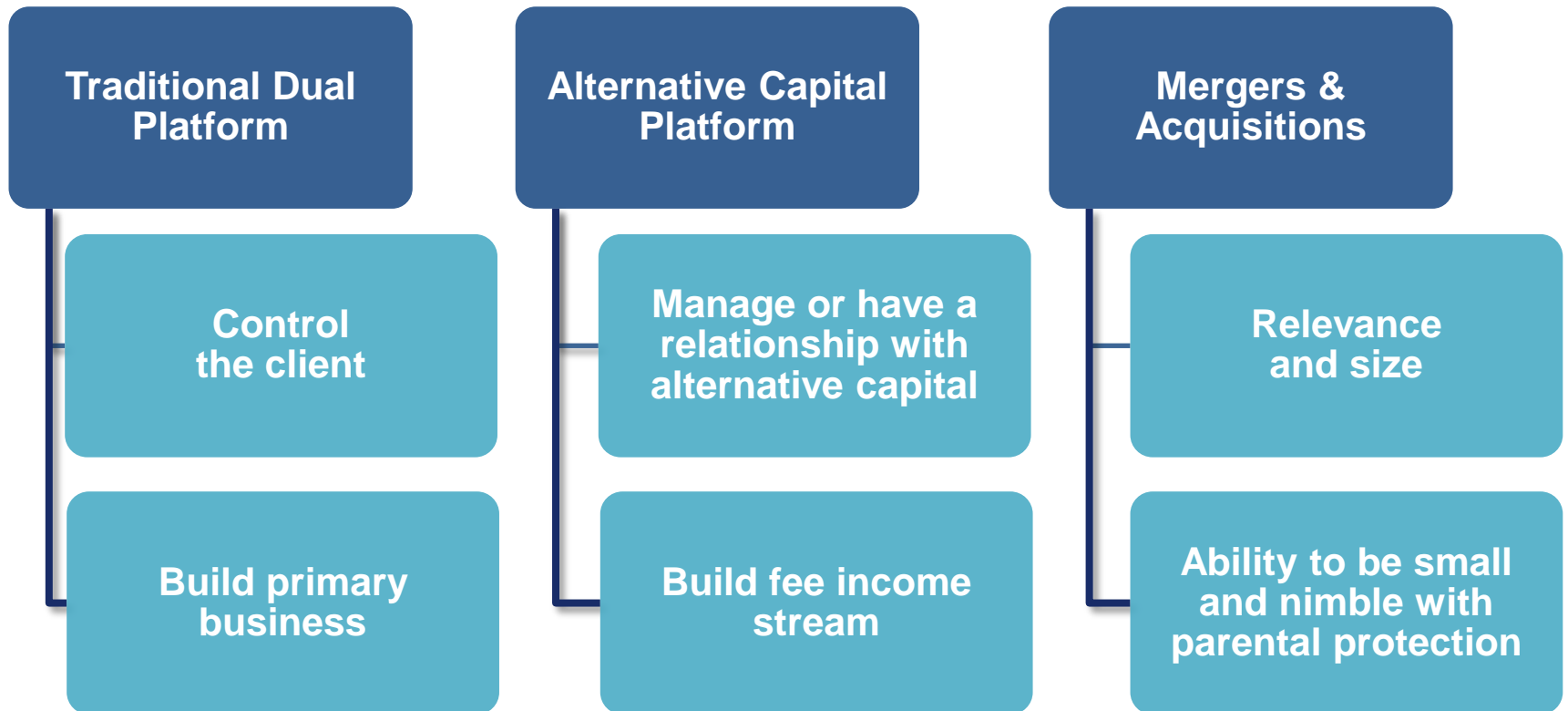
In A.M. Best's opinion...

The market will continue to become more efficient as all players strive to become closer to the client



Global Market Trends

Strategy Evolution



Global Market Trends

Potential Opportunities

Cyber Insurance

Flood

Mortgage

Limited Improvement in Cat Pricing

InsurTech

Reinsurance Sector Outlook

Capitalisation remains strong but...

Performance has been deteriorating and pressure on margins continues to mount

Returns for some reinsurance companies will fall short on a risk-adjusted basis

**A.M. Best Maintains
Negative Outlook**

Headwinds

Convergence
capital pressure

Intense
competition

Earnings under
pressure

Slippage in
terms &
conditions

Tailwinds

Favourable
reserve
development

(Catastrophes)

Increased
cessions

P/C ILS Market Activities

Emmanuel Modu

**Managing Director and Global Head of
Insurance-Linked Securities**



Overview of the Current State of the ILS Market

- ILS capital in all forms continues to provide capacity to the reinsurance market
 - Current estimates put the ILS market around \$75 billion
- 2017 will be a record in catastrophe bond issuance
- Peak exposures still dominate cat bond issuances: U.S. wind and earthquake, European wind, and Japan earthquake and typhoon
- Collateralized reinsurance continues to be the fastest growing portion of the ILS market
- Uncertainty in total insured losses due to HIM in 2017
- ILS fund managers' participation in the reinsurance market continues to grow with increase in Assets Under Management

The Instruments and the Capacity Providers

ILS Instruments, Vehicles and Capacity Providers

- ILS Instruments & Vehicles
 - Catastrophe bonds - approximately \$23 billion¹
 - Collateralized reinsurance – around \$40 billion¹
 - Sidecars - around \$5 billion
 - ILW between \$3 to \$4 billion
- Capacity Providers
 - Specialized ILS funds – Assets Under Management (AuM) around \$67 billion²
 - Reinsurer backed ILS funds – AuM around \$12 billion²
 - Hedge fund reinsurers – Capital & surplus of around \$5 billion

¹As of December 2016

²As of July 2017

Cat Bonds– Insurance Growth

Catastrophe Bonds Growth: P/C Related Risks		
Year	Principal (In USD bil.)	% Change (Year over Year)
2017*	9.00	67.7%
2016	5.37	-17.2%
2015	6.48	-21.9%
2014	8.30	13.5%
2013	7.31	24.4%
2012	5.88	37.4%
2011	4.28	-0.45%
2010	4.30	26.5%
2009	3.40	24.5%
2008	2.73	-63.3%
2007	7.33	58.3%
2006	4.69	135.7%
2005	1.99	74.2%
2004	1.14	-33.9%
2003	1.73	41.9%

- Huge growth over past year
- Mostly indemnity-type transactions
- Generally unrated

Source: A.M. Best Research



Cat Bonds– Heightened Risks

Catastrophe Bonds (P/C related risk) Investors Taking on More Risk

Year	Total No. of Tranches	No. of Tranches based on Expected Loss Information	Spread (%) ¹	Expected Loss (%) ¹	Spread to Expected Loss ²
2017*	57	54	4.89	2.28	2.14x
2016	36	36	5.57	2.61	2.13x
2015	38	31	5.31	2.19	2.43x
2014	46	35	4.81	1.60	3.00x
2013	46	41	5.82	1.68	3.47x

* Through September 30, 2017; ¹ Weighted average calculations (weighted by cat bond dollar value); ² Ratio of spread to expected loss

- Spread to expected loss has declined over the past 4 years – investors generally get less in return for taking on similar risks over time
- The decline positively correlates with the decline in the P/C rate on line

Cat Bonds– Recent Non-Peak Transactions

Catastrophe Bonds Issues in 2017 and 2016: Other P/C Non-Peak Risks/Exposures

Issue Date	Vehicle	Sponsor	Size (\$mm)	Peril	Trigger
Apr 2017	Oaktown Re Ltd	National Mortgage Insurance Co.	211.32	Mortgage Insurance	Indemnity
Dec 2016	Horse Capital I DAC ¹	Assicurazioni Generali S.p.A	265.20	Motor Third Party Liability Losses	Indemnity
May 2016	Operational Risk Re Ltd ²	Zurich Insurance Company	221.78	Operational Risks	Indemnity
Apr 2016	Bellemeade Re II Ltd	United Guaranty Corporation	298.58	Mortgage Insurance	Indemnity

¹ USD equivalent of 220.20 million Swiss francs debt at closing date (1 CHF = 1.00807 USD)

² USD equivalent of 255.00 million Euros debt at closing date (1 Euro = 1.04 USD)

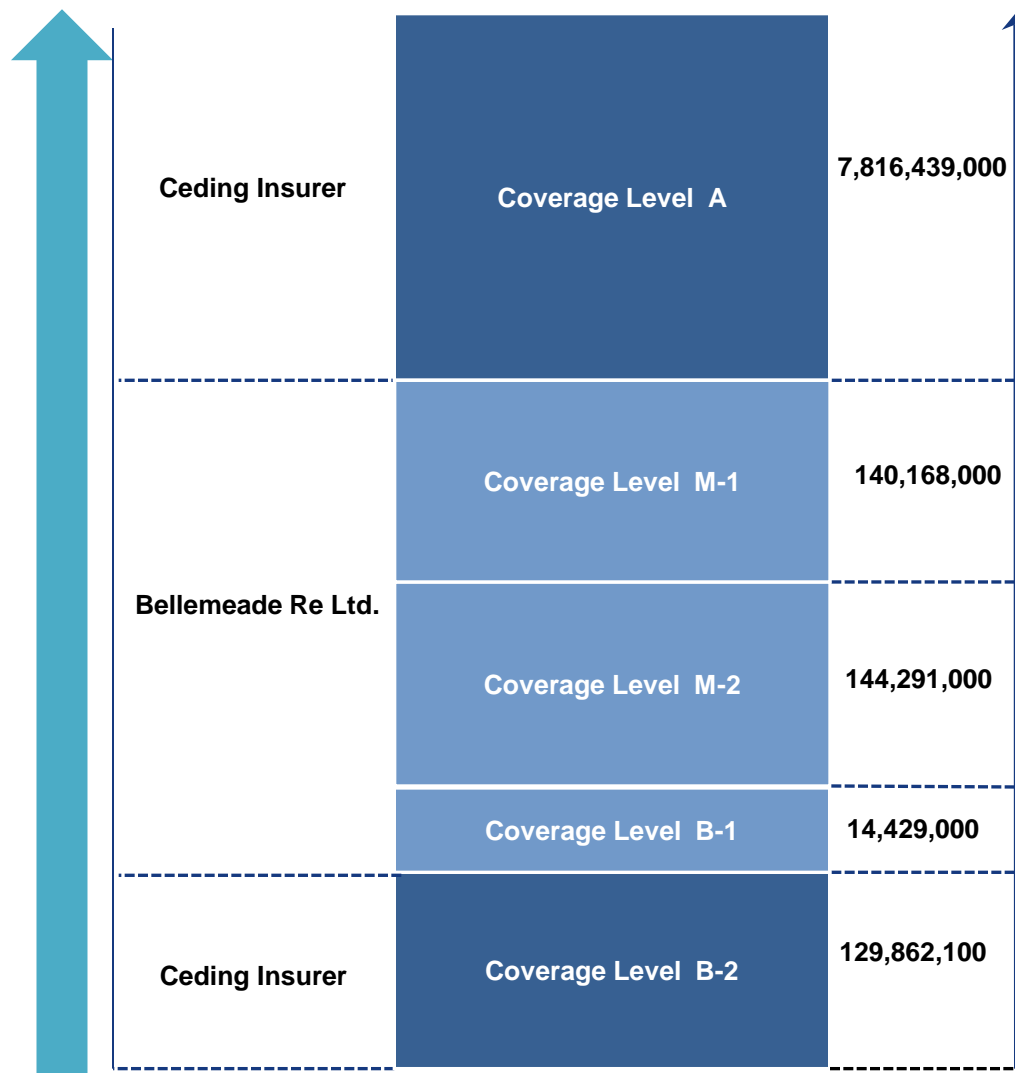
- Over the past two years, 4 P&C bonds unrelated to peak risks/exposures were issued
- The mortgage-related transactions appear to be repeatable

Source: A.M. Best Research



Cat Bonds– Recent Non-Peak Transactions

Bellemeade Re– Reinsured Cover and Attachment Structure



- Risk Covered
 - Risk In Force = 25% of \$32B of Unpaid Principal Balance = About \$8B
- Excess of Loss Structure
 - 3.6% of RIF Excess of 1.6%
- Risk Environment

Transactions Benefitting From:

 - Stronger underwriting environment (FICO, Docs)
 - Cleaner product origination
 - Regulatory penalties for bad product originations
 - No “No Doc “ loans
 - No Neg. Amort. Products
 - No Int. only pmt. loans

Cat Bonds– Stress Due to Recent Catastrophes

At-Risk Bonds Due to Recent Catastrophes			
Vehicle	Sponsor	Tranches Amount (mm)	Stress On Bond
IBRD Catastrophe-Linked Notes ¹	AGROASEMEX S.A./FONDEN	\$150.0	Default: Loss Event – Mexico Earthquake
Manatee Re Ltd. ¹	Safepoint Ins. Company	\$20.0	Default: Loss Event – Hurricane Irma
Kilimanjaro Re 2014-B	Everest Re	\$200.00	Aggregate loss associated with Harvey, Irma, Maria Loss Event – Downgraded from BB-(sf) to B-(sf)
Others Yet Unknown			

¹Not yet finalized

- Unclear which bonds will experience stress – losses are too uncertain
- Lane Financial states that cat bonds priced at 80% of par or below is about \$900mm (out of outstanding)
- In general, catastrophe bonds have very high attachment points so we expect less losses than with collateralized reinsurance structures

Source: A.M. Best Research and Trading Risk



Specialist ILS Funds

AuM Growth 2014-2017 (Current Top 5 Specialist ILS Fund Managers)

Entity	June 2017	June 2016	June 2015	June 2014
Estimated Assets Under Management (AuM) USD million				
Nephila Capital	10,500	10,200	9,500	10,000
Credit Suisse Asset Management	8,600	7,000	6,500	6,000
LGT Insurance-Linked Partners	7,000	5,800	5,200	3,900
Fermat Capital Management	5,400	4,800	4,700	4,700
Stone Ridge Asset Management	5,706	4,760	3,290	1,795
Total (Top Five)	37,206	32,360	29,190	26,395
Total (All Specialist ILS Funds)	66,747	53,823	46,746	43,233

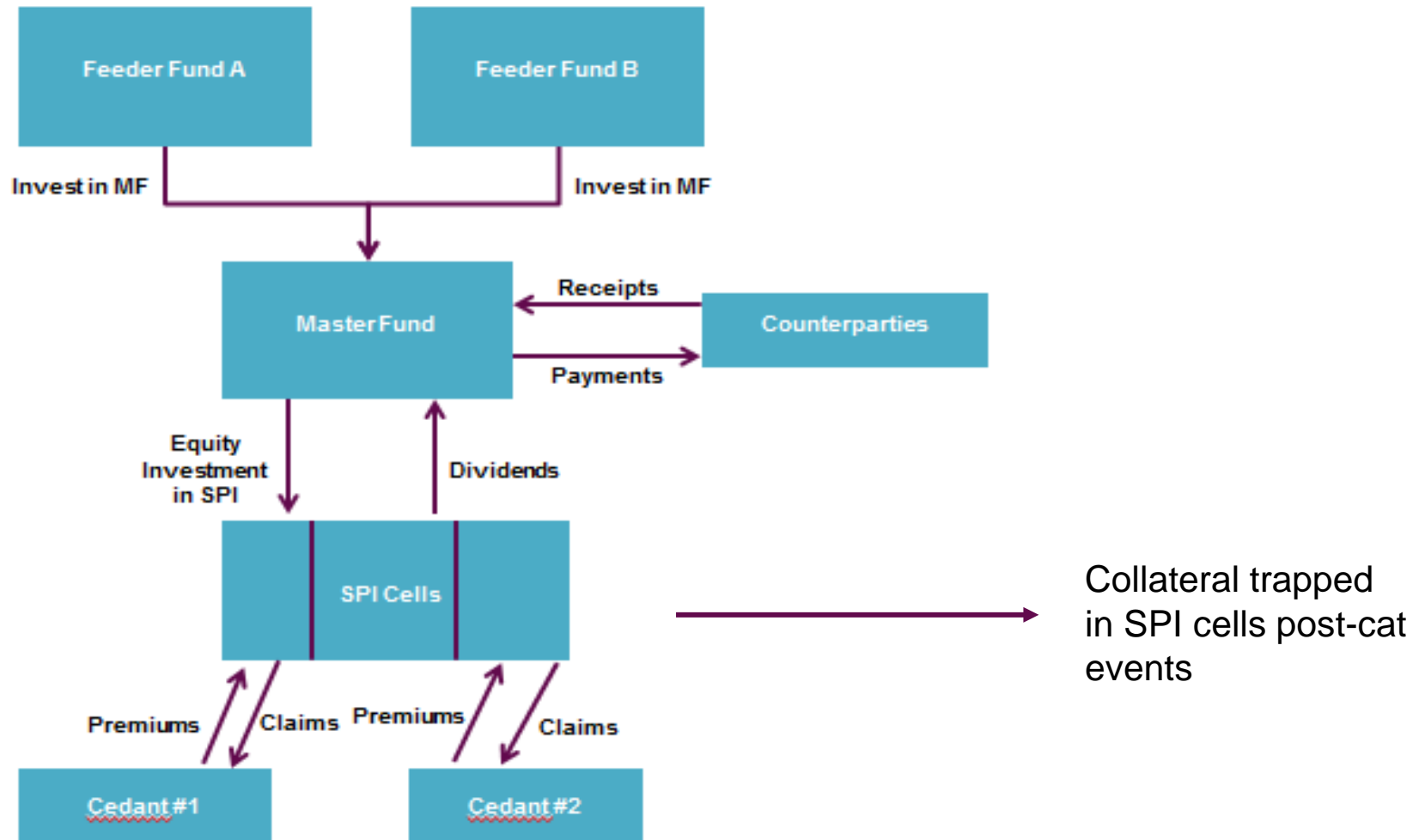
- Recent storms could reduce capacity provided by ILS funds unless they have post-event commitments due to potential for increase in premiums
- Losses and “trapped collateral” could reduce capacity (at least temporarily)

Source: Trading Risk



Specialist ILS Funds

Mechanics of “Trapped Collateral”



Specialist ILS Funds

Mechanics of “Trapped Collateral”

Example of Buffer Loss Factors			
Months Since Date of Loss Occurrence	*Windstorm	Earthquake	Other
0 to 3	200%	300%	250%
> 3 to 6	150%	200%	175%
> 6 to 9	125%	175%	150%
> 9 to 12	110%	150%	130%
> 12 to 15	105%	125%	115%
> 15 to 18	100%	120%	110%
Thereafter	100%	100%	100%

*Includes hurricane, rainstorm, storm, tempest, tornado, cyclone, typhoon and hail

Amount of Collateral Trapped = Buffer * (Actual Losses + LAE Expenses + IBNR + Misc.)

ILS Takeaways

- Collateralized reinsurance will continue to be the fastest growing portion of the ILS market
 - Access to risks not available to cat bond instrument
 - Investors' desire to achieve a target risk/return profile
 - Flexibility of coverage design required by ceding insurers
 - ILS Funds seeking to increase leverage through various funding arrangement
- Repeatable transactions outside of peak risks (except for mortgage risks) will probably continue to be rare
- Trapped collateral could reduce capacity depending on an ILS funds renewal cycle and ability to raise additional funds
- To some extent, HIM is a test for the ILS market but a more severe test would help the market solidify its position in reinsurance

U.S. Life/Annuity Recent Trends

Ken Frino, Managing Director
Rosemarie Mirabella, Director



Agenda

Outlook

Industry Trends

Financial Trends

- 2016

- 2Q 2017

Forecast

U.S. Life/Annuity Ratings Outlook

Moderate Economic Growth

Low Interest Rates

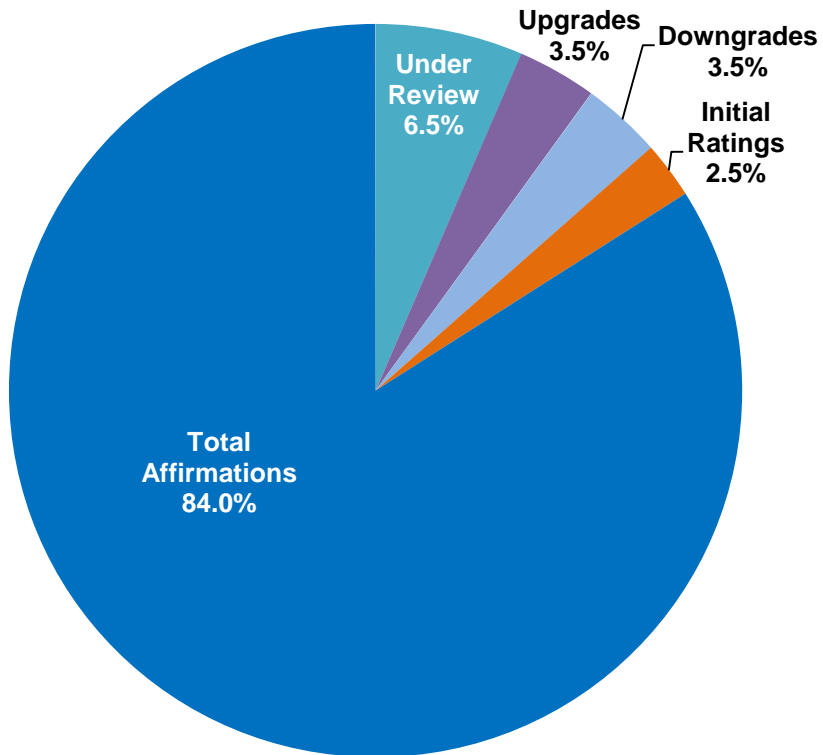
Regulatory

Equity Market Valuations

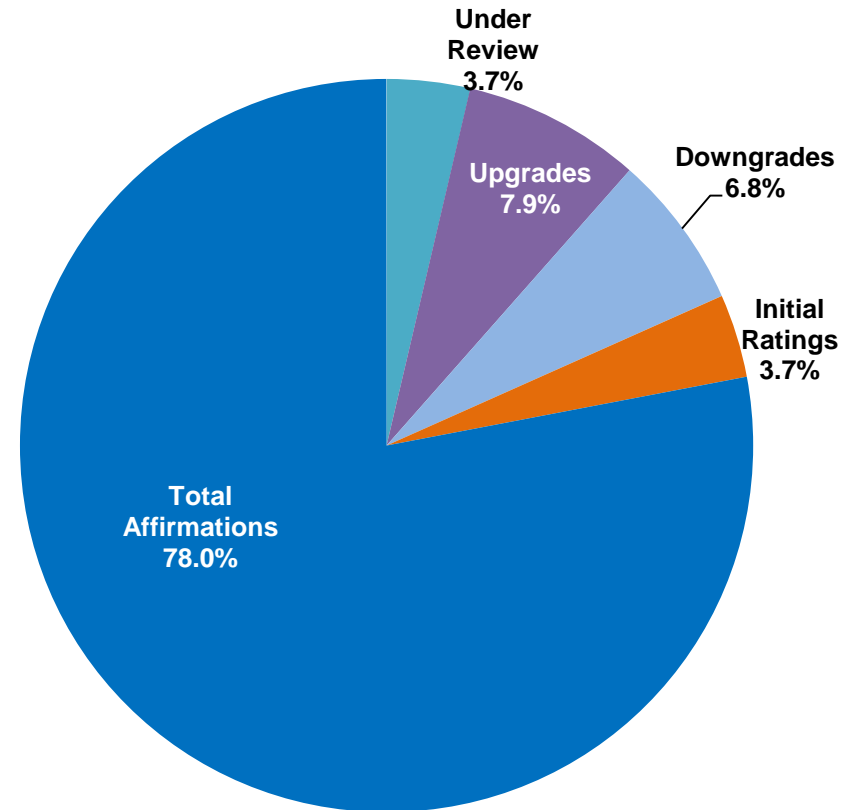
Benign Credit Environment

Life/Health Ratings Trends

Mid-Year 2016



Mid-Year 2017



Industry Trends – Credit Positives

- Good overall risk-adjusted capitalization levels
- DOL readiness
- Reasonable leverage/interest coverage ratios
- Some progress on modernizing the business model
- Modest increase in life insurance premiums
- Rationalization of product risk
- Repricing of products
- Ongoing expense management

Industry Trends – Credit Negatives

- Diminished capacity to improve margins near term
- Ongoing spread compression
- Mixed mortality trends/volatility
- Diminished investment flexibility
- Aging distribution
- Need for innovation and technology improvements
- Increasing longevity exposure
- Regulatory

U.S. Life/Annuity – Statutory Quarterly Results

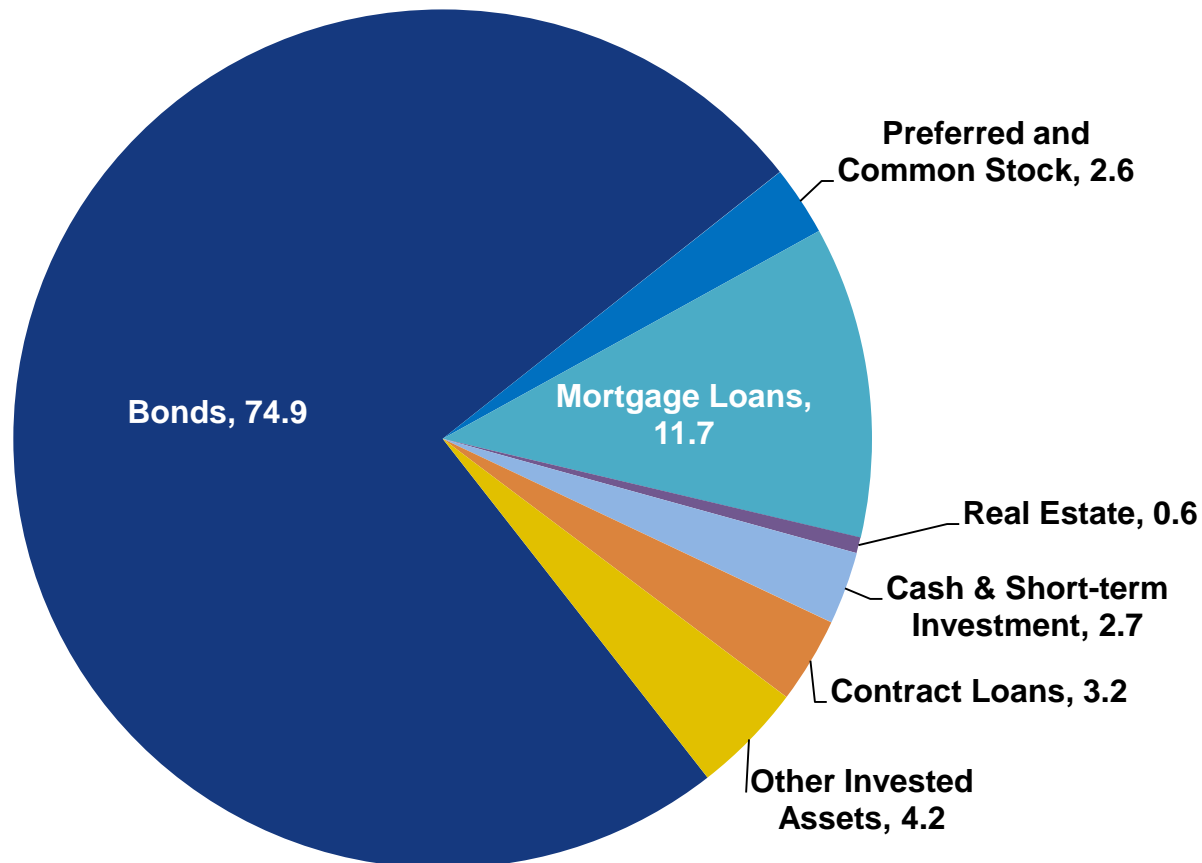
(\$) in billions	2Q2016	Year-End 2016	2Q2017	YoY Growth (%)
Premium & Annuity Considerations	358.9	871.8	372.2	3.7
Net Investment Income	86.8	178.2	91.0	4.8
Pretax Operating Gain	8.7	67.2	32.2	269.1
Realized Capital Gains/Losses	(4.3)	(12.5)	(4.5)	(5.2)
Net income	(2.6)	38.6	20.7	890.9
Invested Assets	4,027.7	4,020.1	4,123.9	2.4
Insurance Assets	4,242.8	4,247.2	4,369.2	3.0
Separate Account Assets	2,465.9	2,520.4	2,639.2	7.0

Direct Premiums by LOB

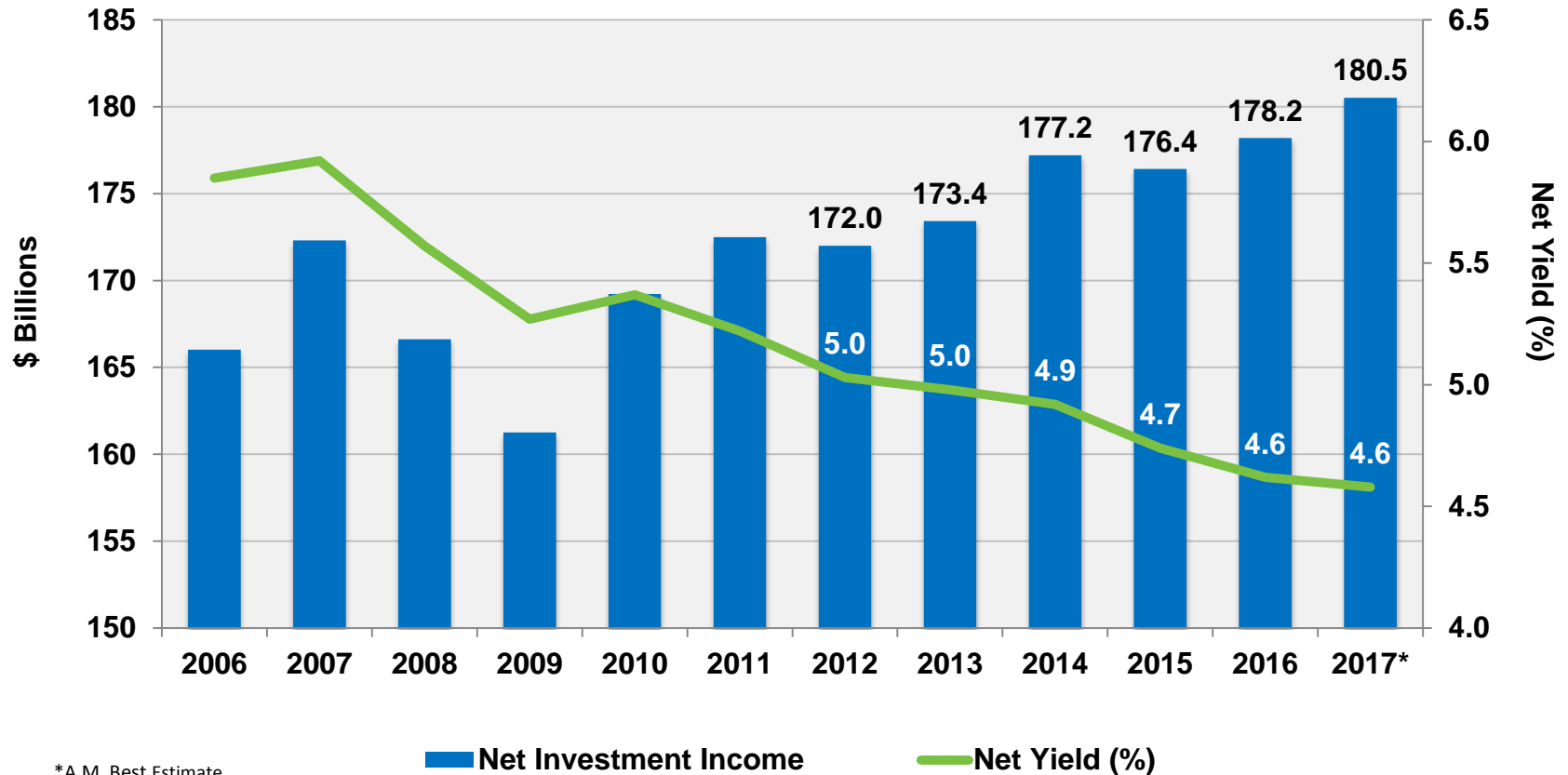
	2012	2013	2014	2015	2016	2Q16	2Q17	2Q YOY % Change
Ordinary & Group Life	171.5	167.7	171.4	178.3	180.5	88.9	91.1	2%
Individual Annuity	197.7	204.3	211.3	213.2	203.1	107.4	97.2	-10%
Group Annuity	164.1	120.2	119.7	127.0	129.3	59.8	62.9	3%
Group A&H	96.9	101.3	98.1	108.8	115.3	55.9	63.4	7%
Individual A&H	83.1	82.3	70.7	62.9	64.2	33.5	31.6	-2%
Credit	2.1	2.0	1.9	1.8	1.6	.8	.7	-.1%
Total	715.4	677.8	673.2	692.1	694.0	346.3	346.9	.6%


Investment Portfolio

U.S. Life/Annuity - 2Q2017 Investment Allocation (%)



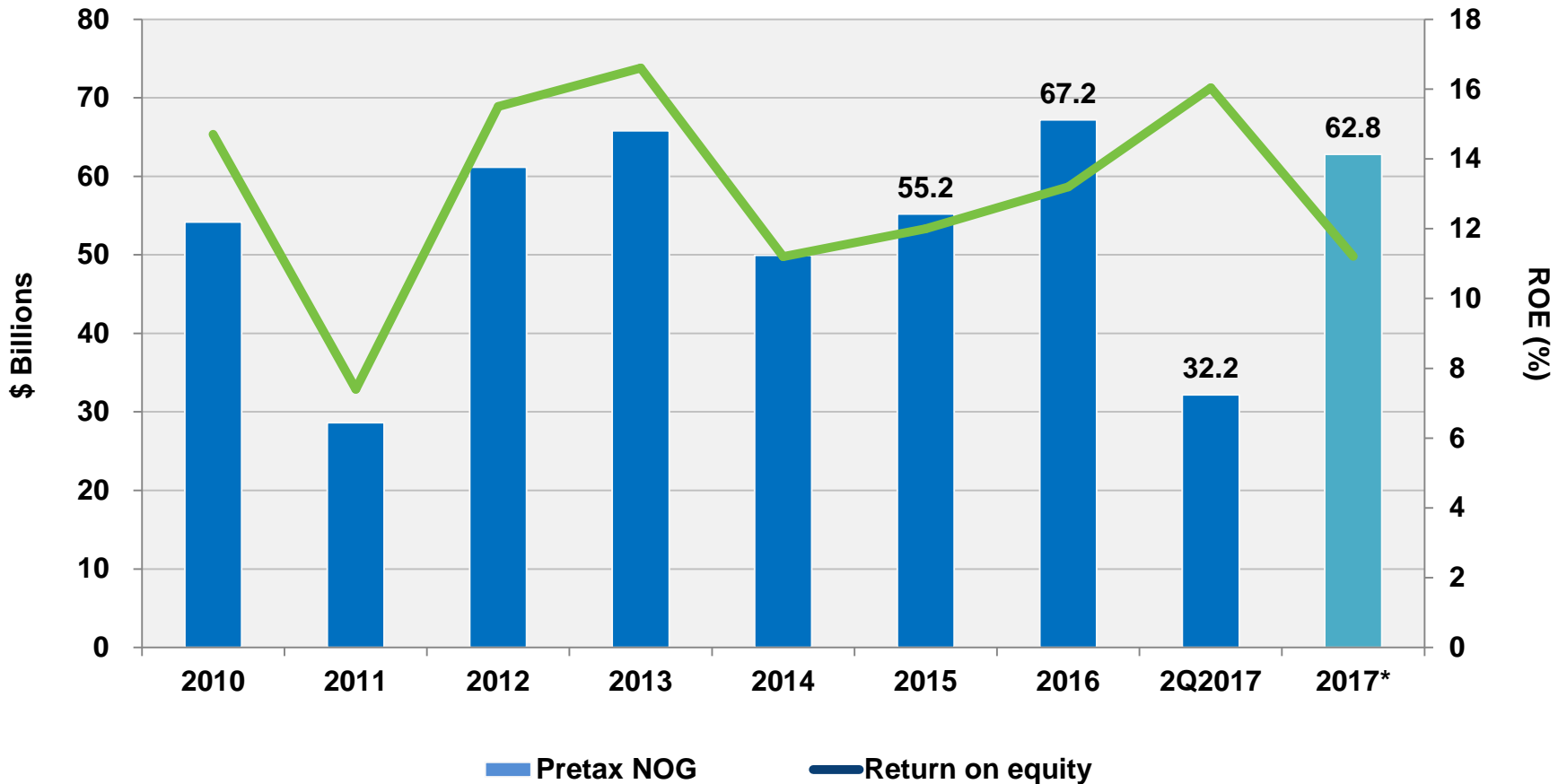
Operating – Portfolio Yields



Source:  Best's Statement File - L/H, U.S.



Life/Annuity Operating Forecast



* A.M. Best Estimate



Health – Performance and Outlook

Sally Rosen, Director– LH

Doniella Pliss, Associate Director– LH





U.S. Health Ratings Outlook - Negative

Uncertainty on the future of ACA

Financial losses in ACA segment

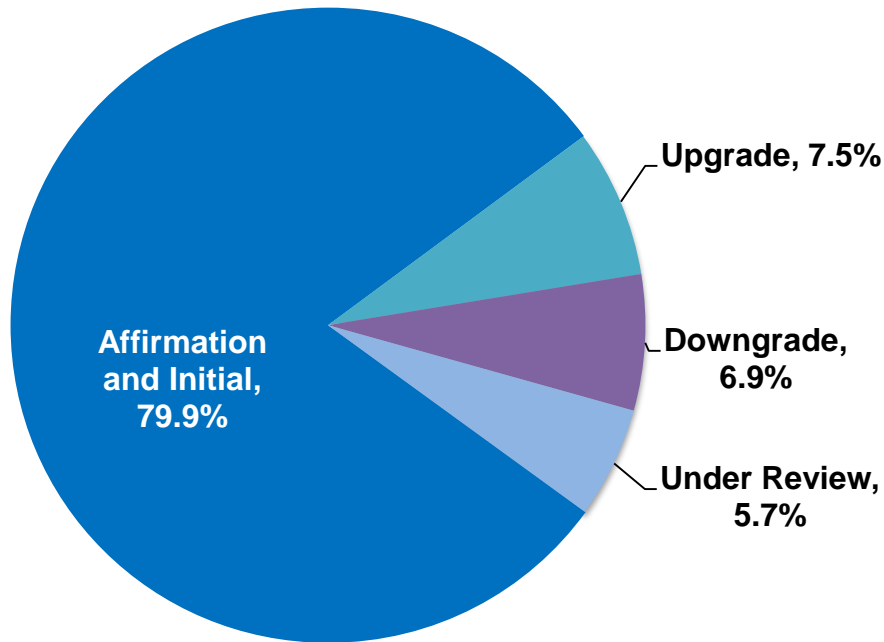
Lack of growth in commercial segment

**Growth in lower margin government
business**

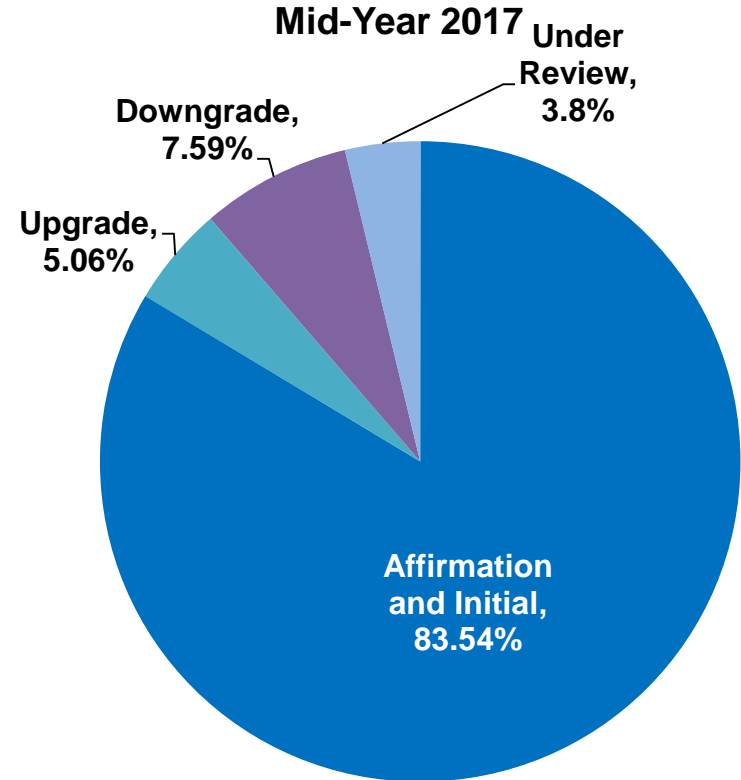
Declining capitalization trends

Health Rating Trends

2016



Mid-Year 2017



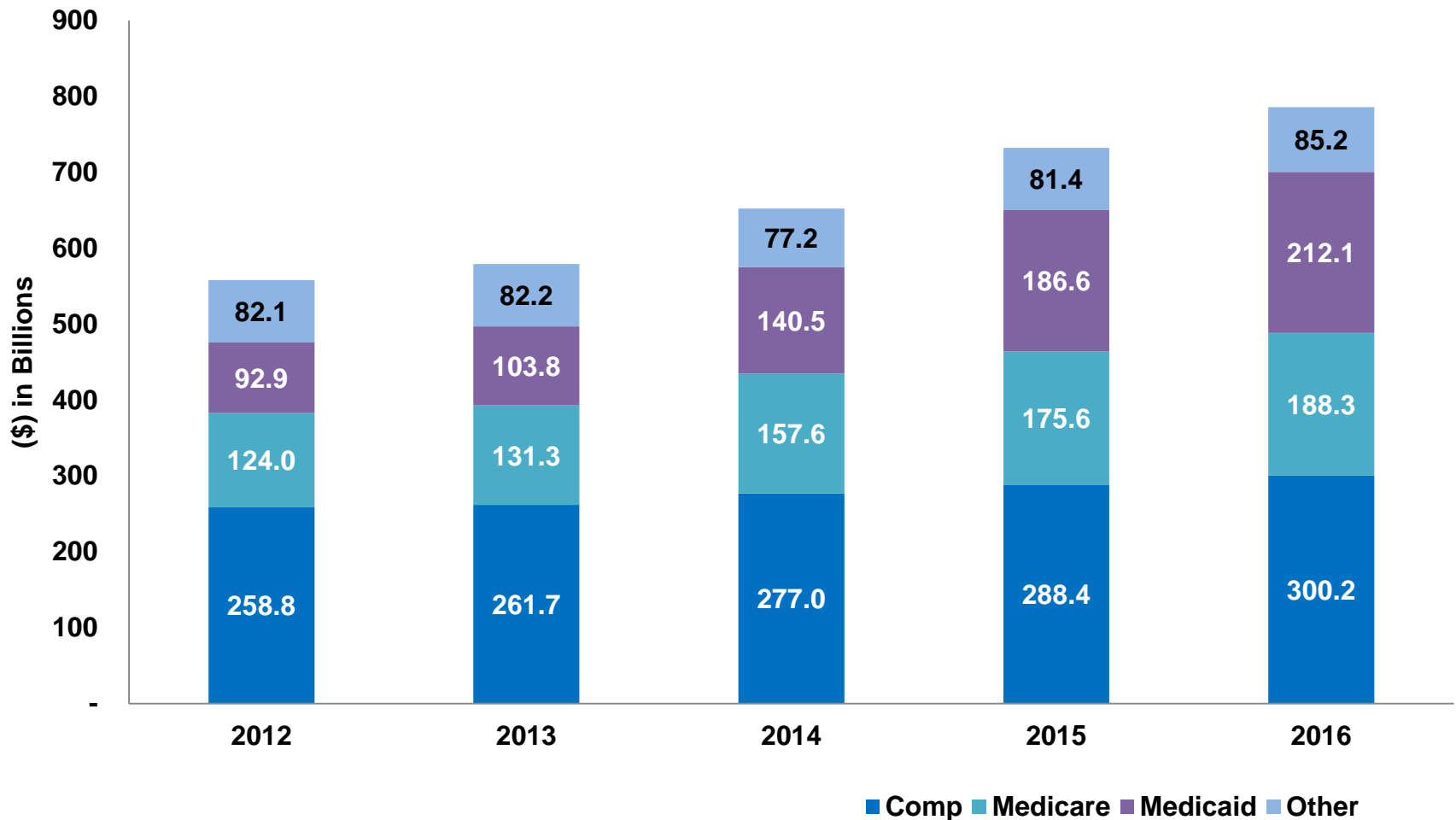
2017 Industry Trends

- Temporary reprieve from the Health Insurer Fee (HIF)
- Lower prescription drug trends
- Stable cost trends
- Growth in value-based reimbursements
- Moderating ACA losses
- Compression in Medicaid margins
- Termination of large M&A transactions
- Stable to declining financial leverage

U.S. Health – Financial Performance (\$ Billions)

	2012	2013	2014	2015	2016	2Q 2016	2Q 2017
Net Premium Written	558.0	579.3	652.4	732.1	785.9	383.8	407.5
U/W Income	16.1	14.5	12.3	13.4	15.9	6.5	16.9
Investment Income	4.7	5.1	4.6	3.9	5.1	1.8	2.8
Realized Gains/Losses	1.3	1.3	1.6	0.9	1.0	0.4	0.3
Net Income	16.5	15.6	10.8	9.0	12.8	3.5	14.4
Capital & Surplus	125.3	143.3	141.7	150.7	162.0	150.8	172.4
ROE	12.7	10.6	6.5	5.5	7.6	2.1	8.7

U.S. Health – Net Premiums Written (\$ Billions)



Anticipated Issues 2018

- Medicare Advantage subject to changes in government funding; increased dependency on star ratings and benchmarking limitations
- Margin compression for Medicare Advantage business
- Limited growth potential for new Medicaid contracts
- Lack of growth in higher margin business (group commercial)
- Provider consolidation
- Growing role of technology/data analytics

Anticipated Issues 2018

- ACA related concerns:
 - Uncertainty of CSR's
 - Concern about further deterioration of exchange pools; failure to bring in younger enrollees; multiple markets with a single carrier; declining enrollment
 - Companies not participating with exchanges will be challenged to offer replacement for grandmothers policies
 - Return of the Health Insurer Fee (HIF)
 - Possible modification to ACA – Repeal/Replace – where do we go from here

U.S. Property/Casualty Industry

John Andre, Managing Director
Anthony Diodato, Managing Director

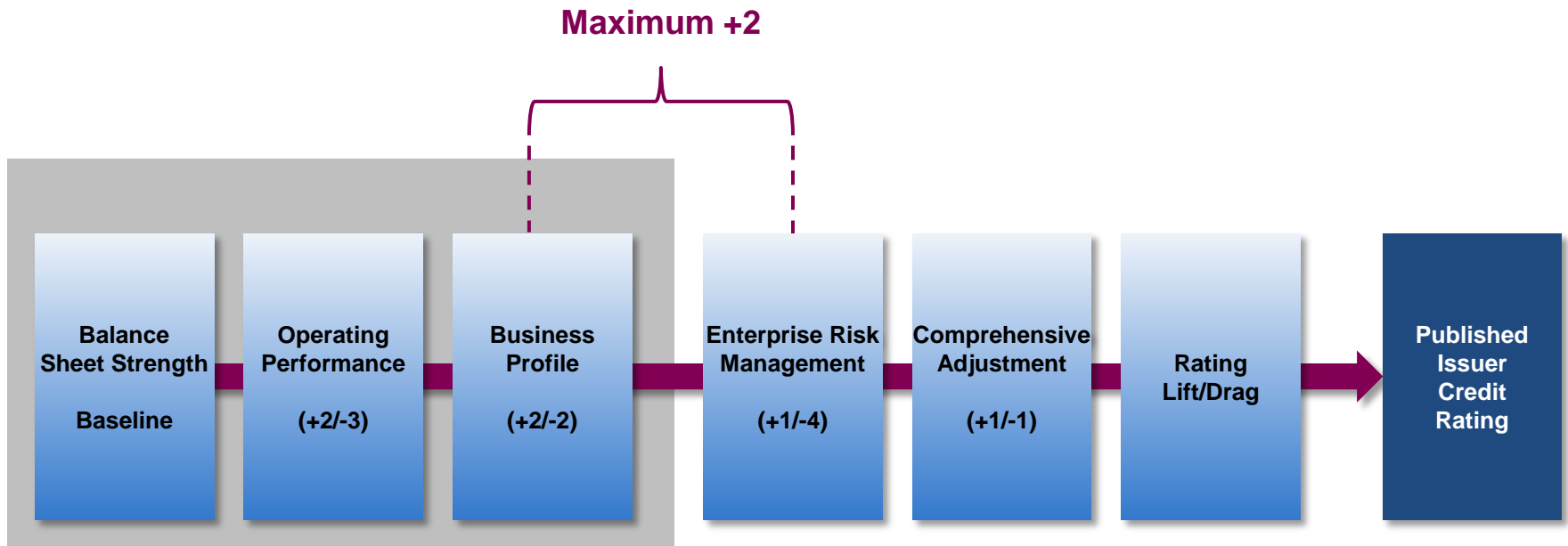


Agenda

Discuss Building Block Approach

Review of the Rating Drivers in A. M. Best's New Methodology

An Updated BCRM: Building Blocks



An Updated BCRM: Building Blocks

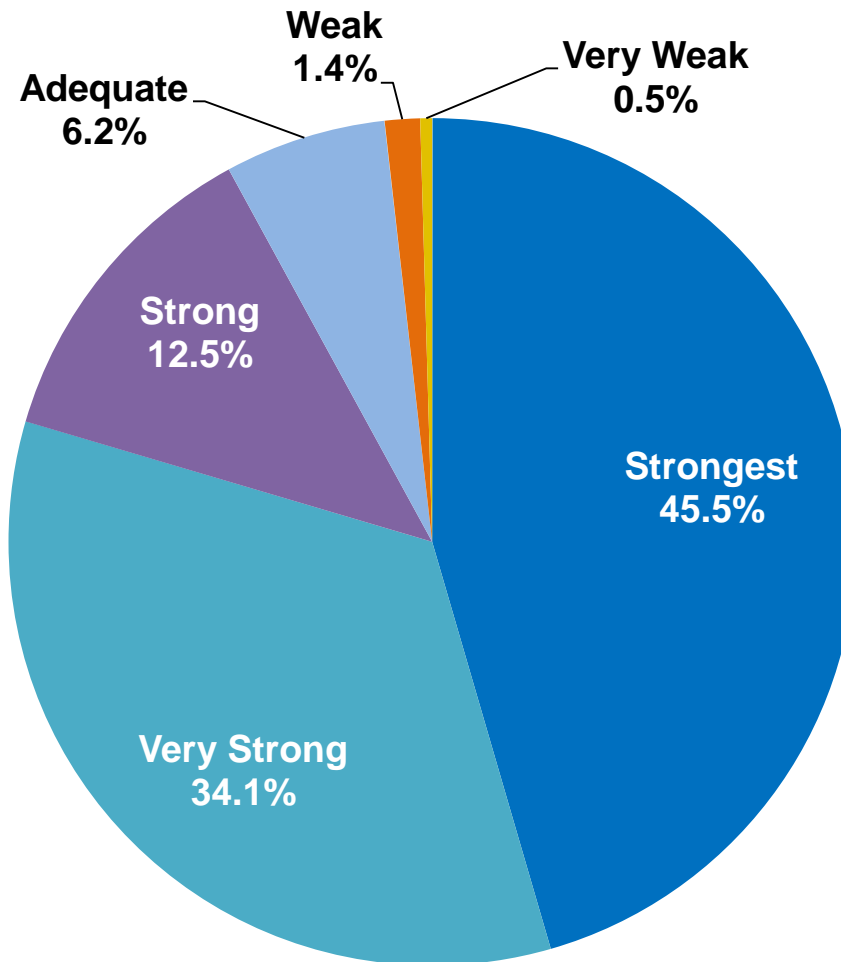


Balance Sheet Strength Components

- BCAR
- Stress Tests
- Liquidity
- Asset Liability Management
- Internal Capital Models
- Quality of Capital
- Quality of Reinsurance
- Reinsurance Dependence
- Appropriateness of Reinsurance Program
- Financial Flexibility

U.S. Property/Casualty

Balance Sheet Strength Distribution

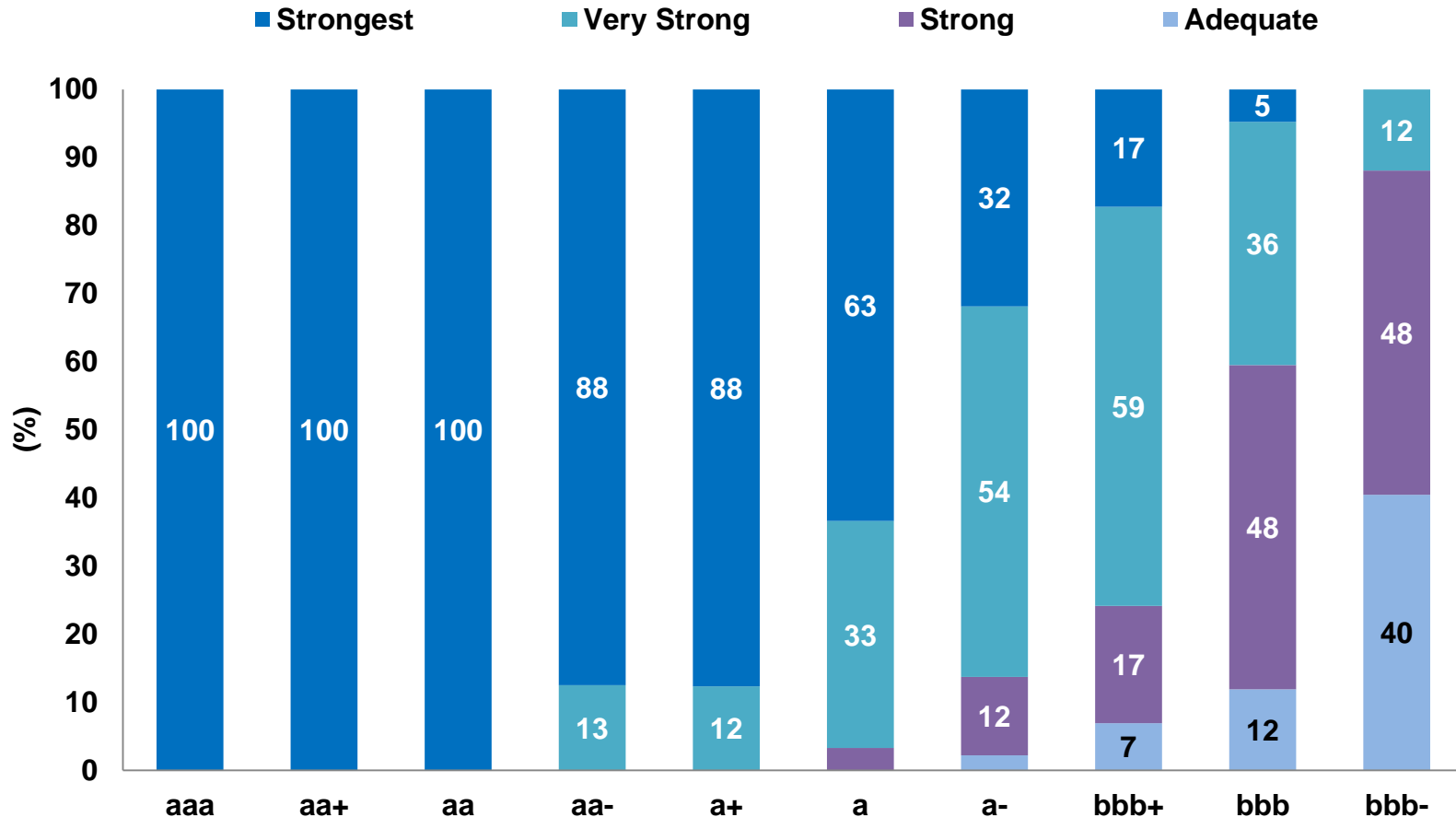


Source: A.M. Best Data and Research



U.S. Property/Casualty

Balance Sheet Strength by Long-Term Issuer Credit Rating

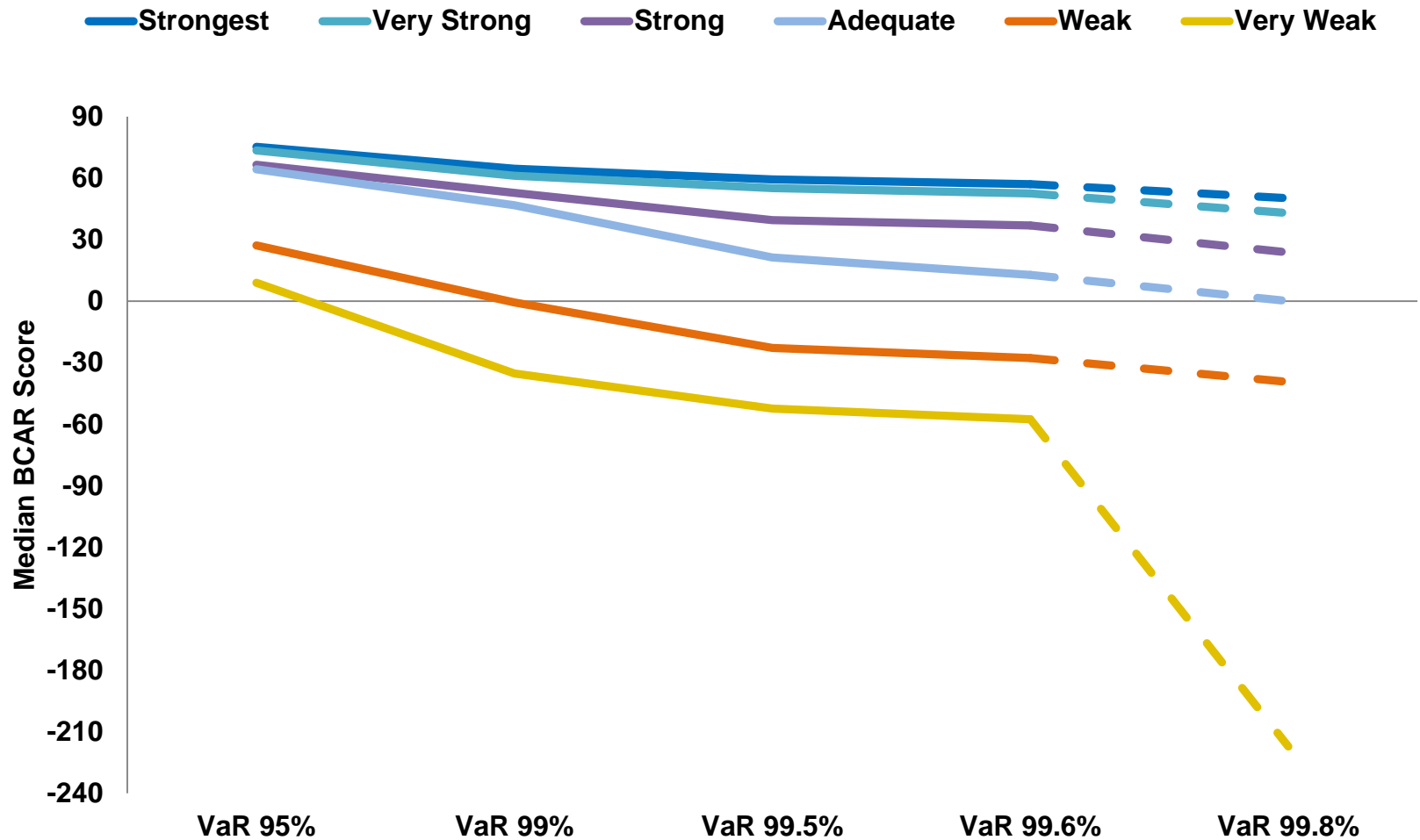


Source: A.M. Best Data and Research



U.S. Property/Casualty

Median BCAR Score by Balance Sheet Strength

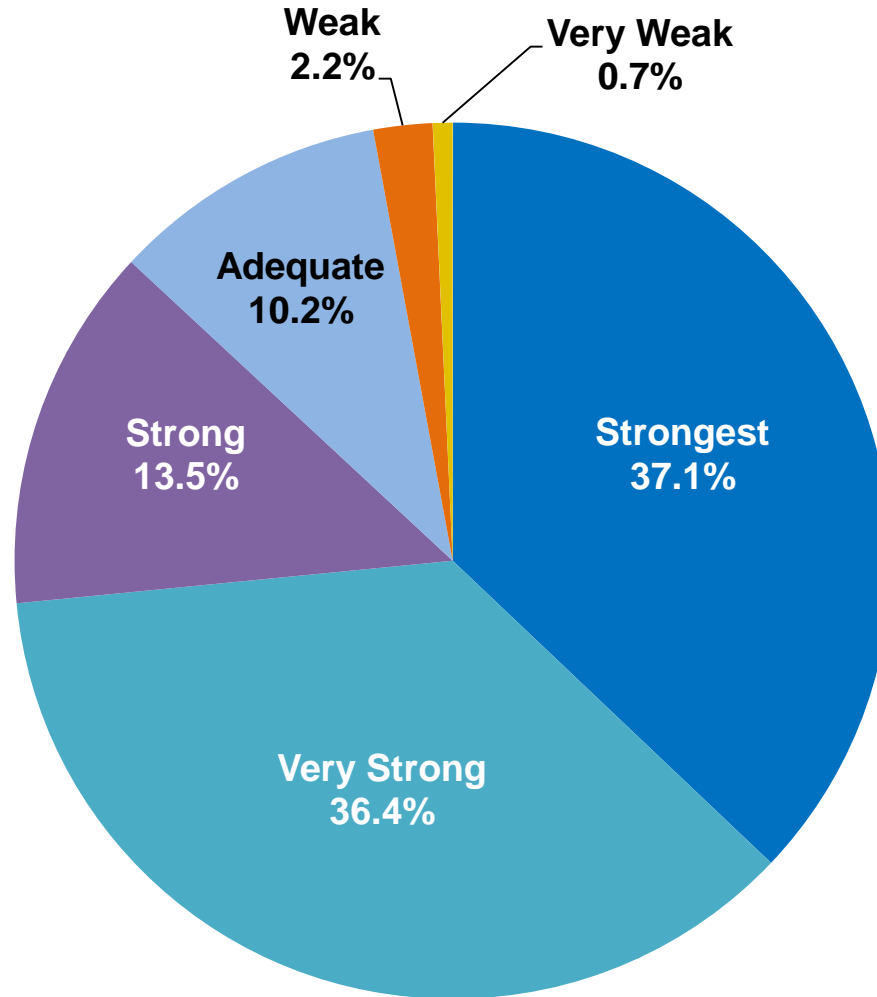


Source: A.M. Best Data and Research



U.S. Personal Lines

Balance Sheet Strength Distribution



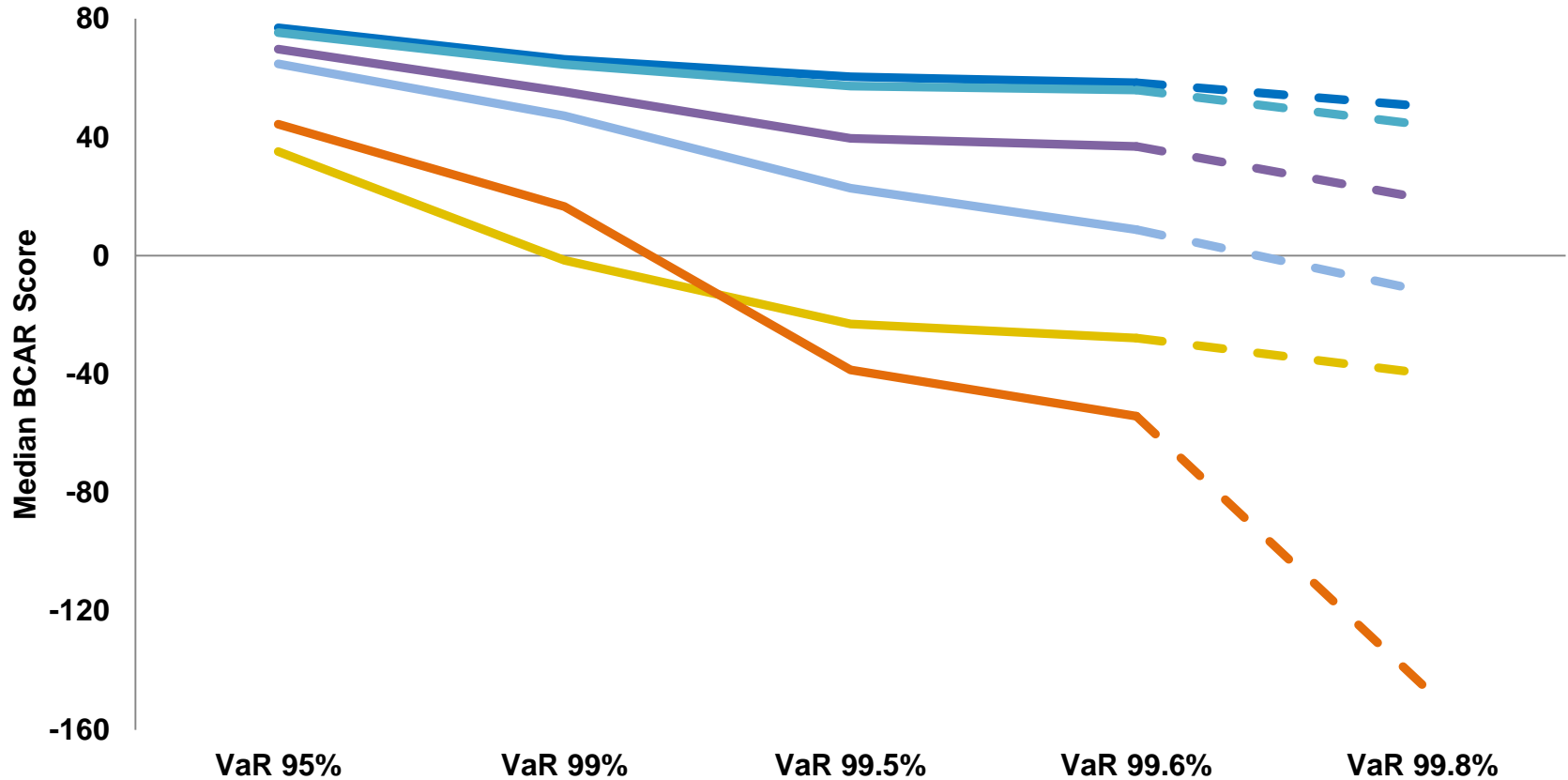
Source: A.M. Best Data and Research



U.S. Personal Lines

Median BCAR Score by Balance Sheet Strength

Strongest Very Strong Strong Adequate Weak Very Weak

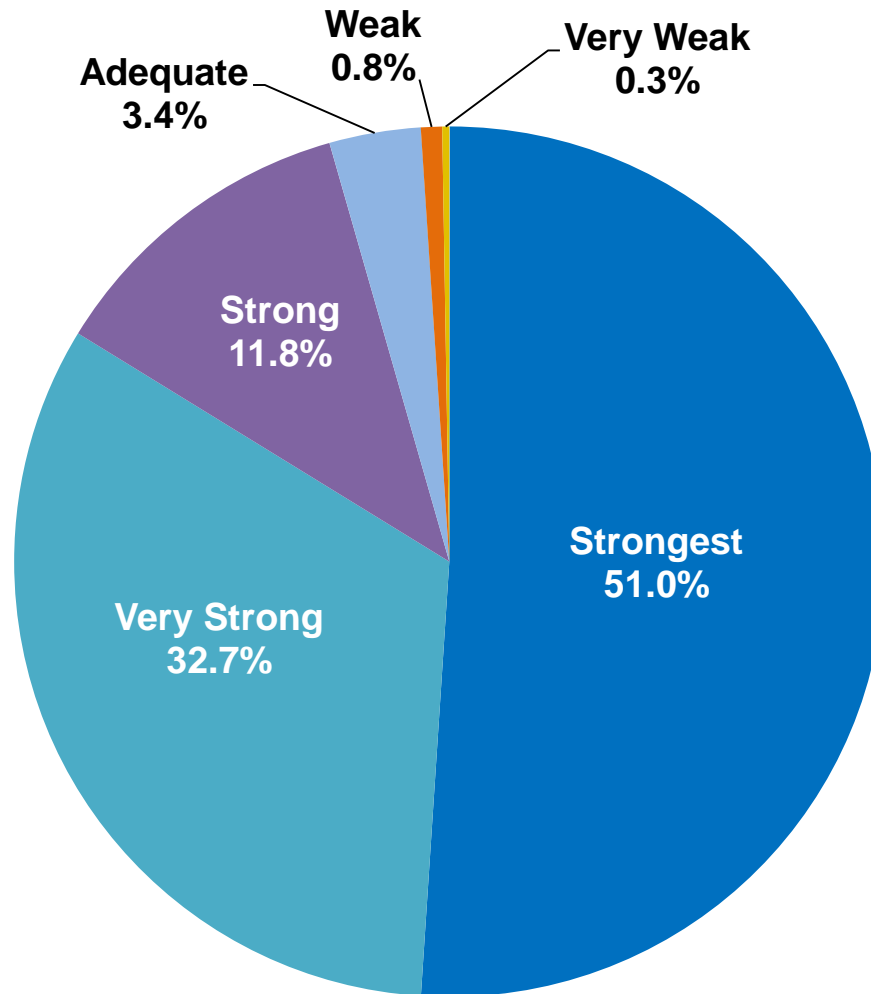


Source: A.M. Best Data and Research



U.S. Commercial Lines

Balance Sheet Strength Distribution

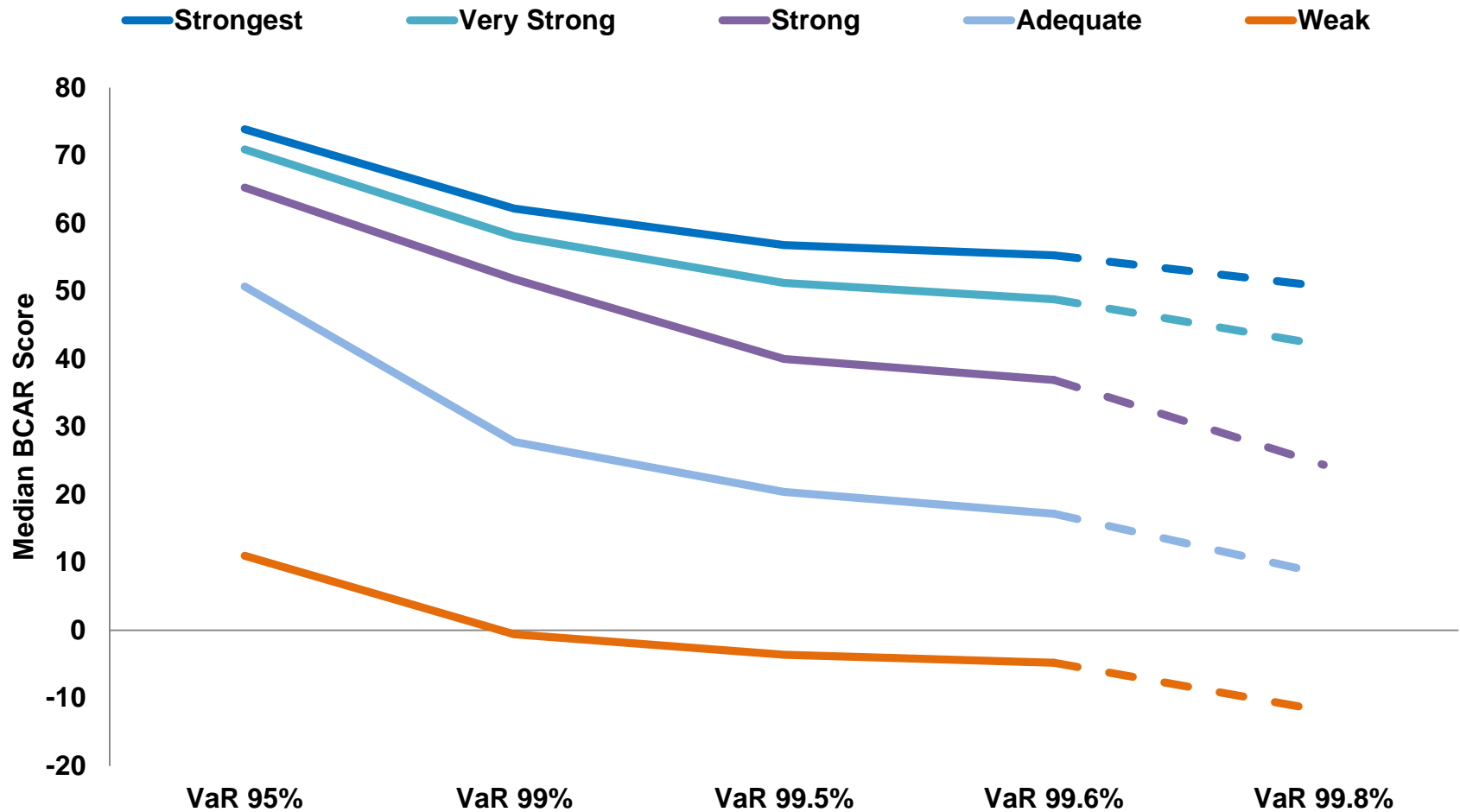


Source: A.M. Best Data and Research



U.S. Commercial Lines

Median BCAR Score by Balance Sheet Strength



Source: A.M. Best Data and Research



An Updated BCRM: Building Blocks

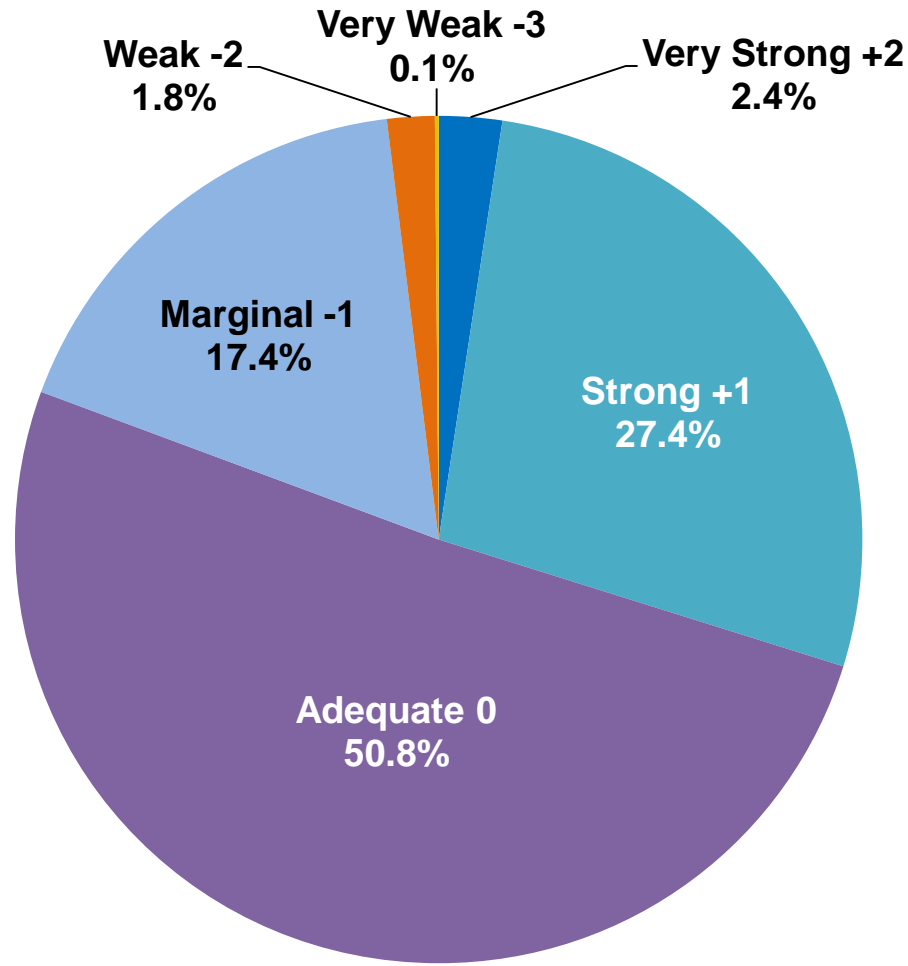


Operating Performance Components

- Change in NPW
- Change in Total Reserves
- Financial Forecasts/Plans
- Combined Ratio
- Pre-Tax Total Return
- Pre-Tax Operating ROR
- Operating ROE

U.S. Property/Casualty

Operating Performance Notch Distribution

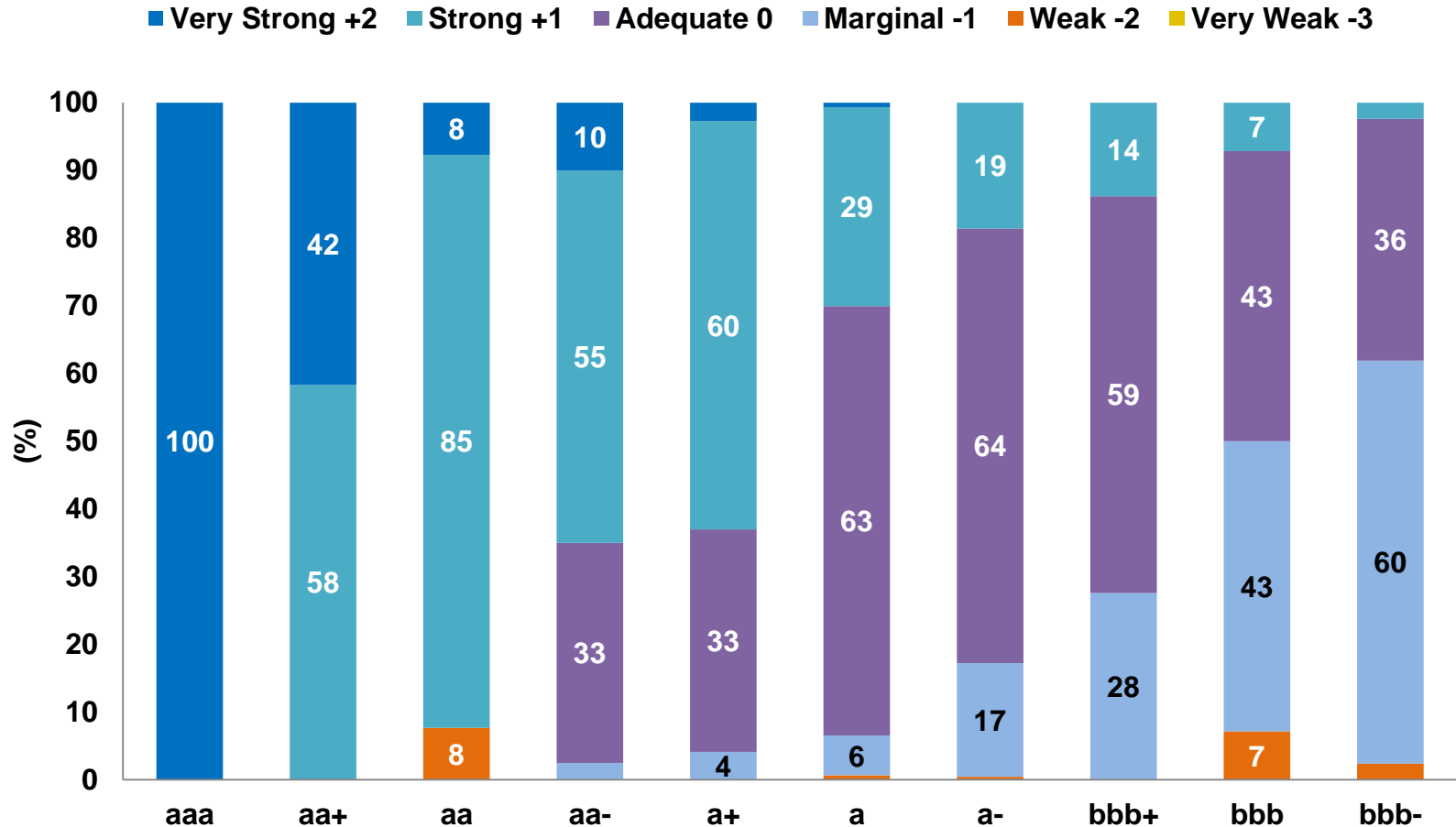


Source: A.M. Best Data and Research



U.S. Property/Casualty

Operating Performance Notch by Long-Term Issuer Credit Rating

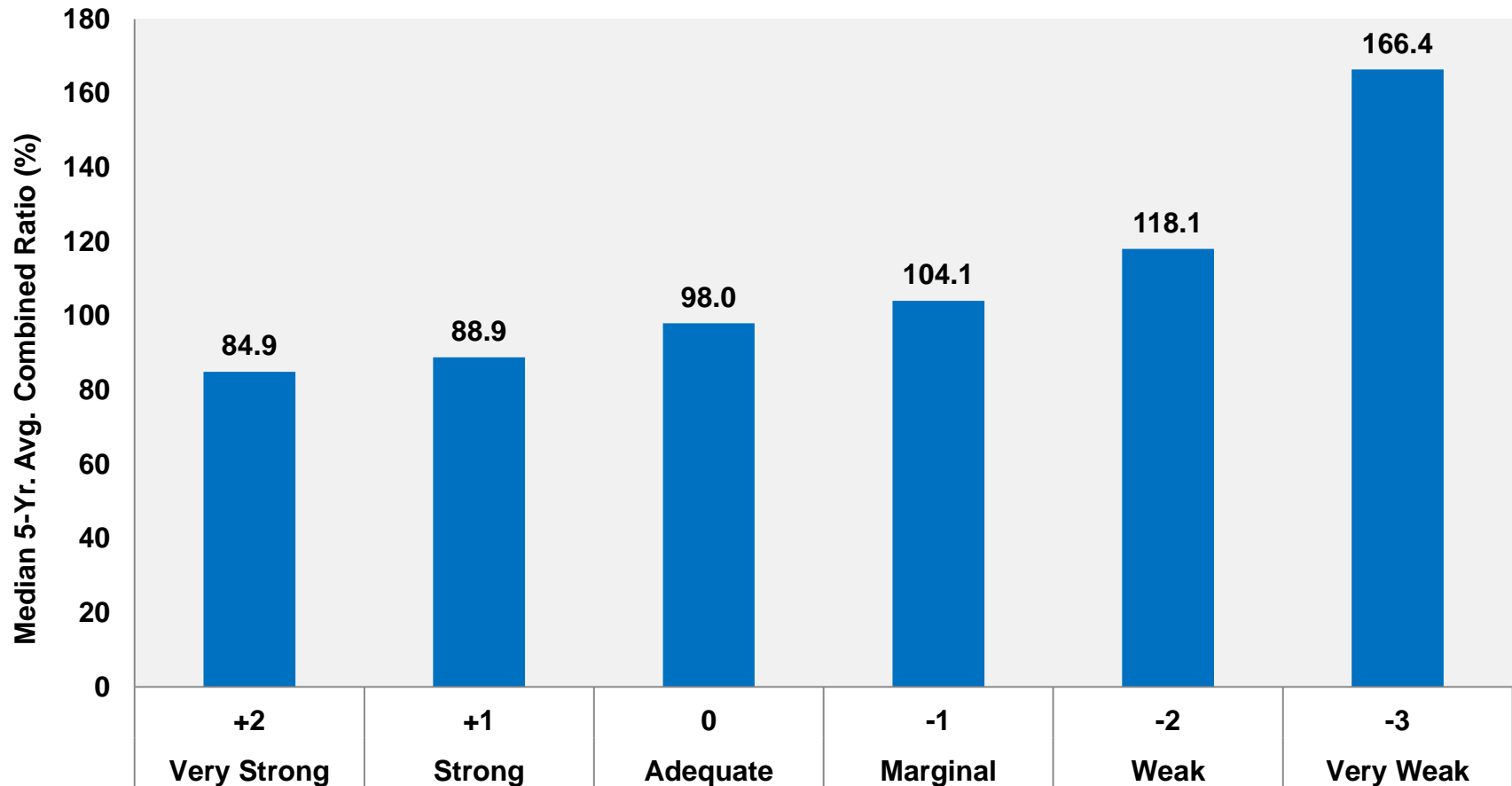


Source: A.M. Best Data and Research



U.S. Property/Casualty

Median 5-Year Average Combined Ratio by Operating Performance Notch

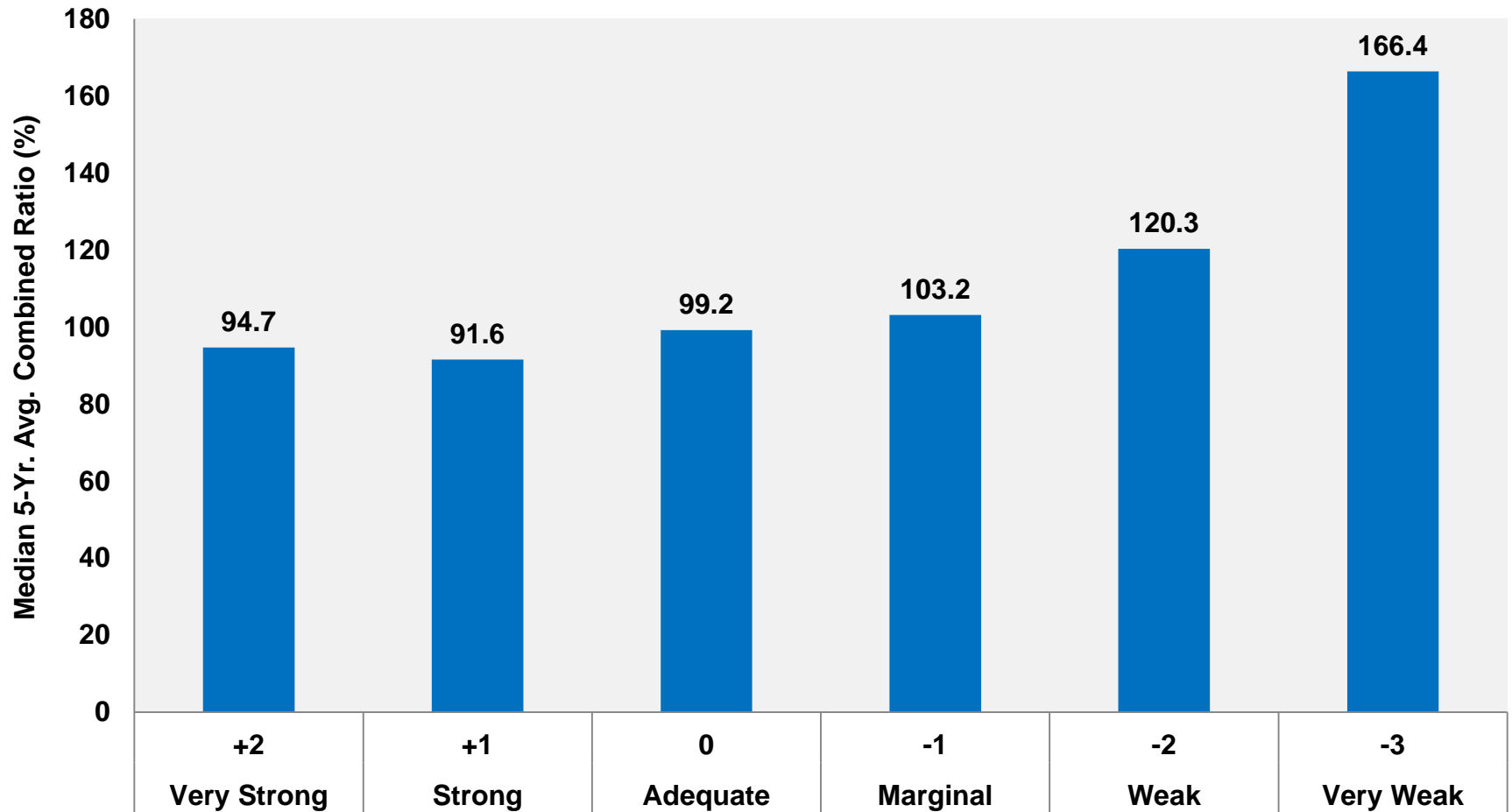


Source: A.M. Best Data and Research



U.S. Personal Lines

Median 5-Year Average Combined Ratio by Operating Performance Notch

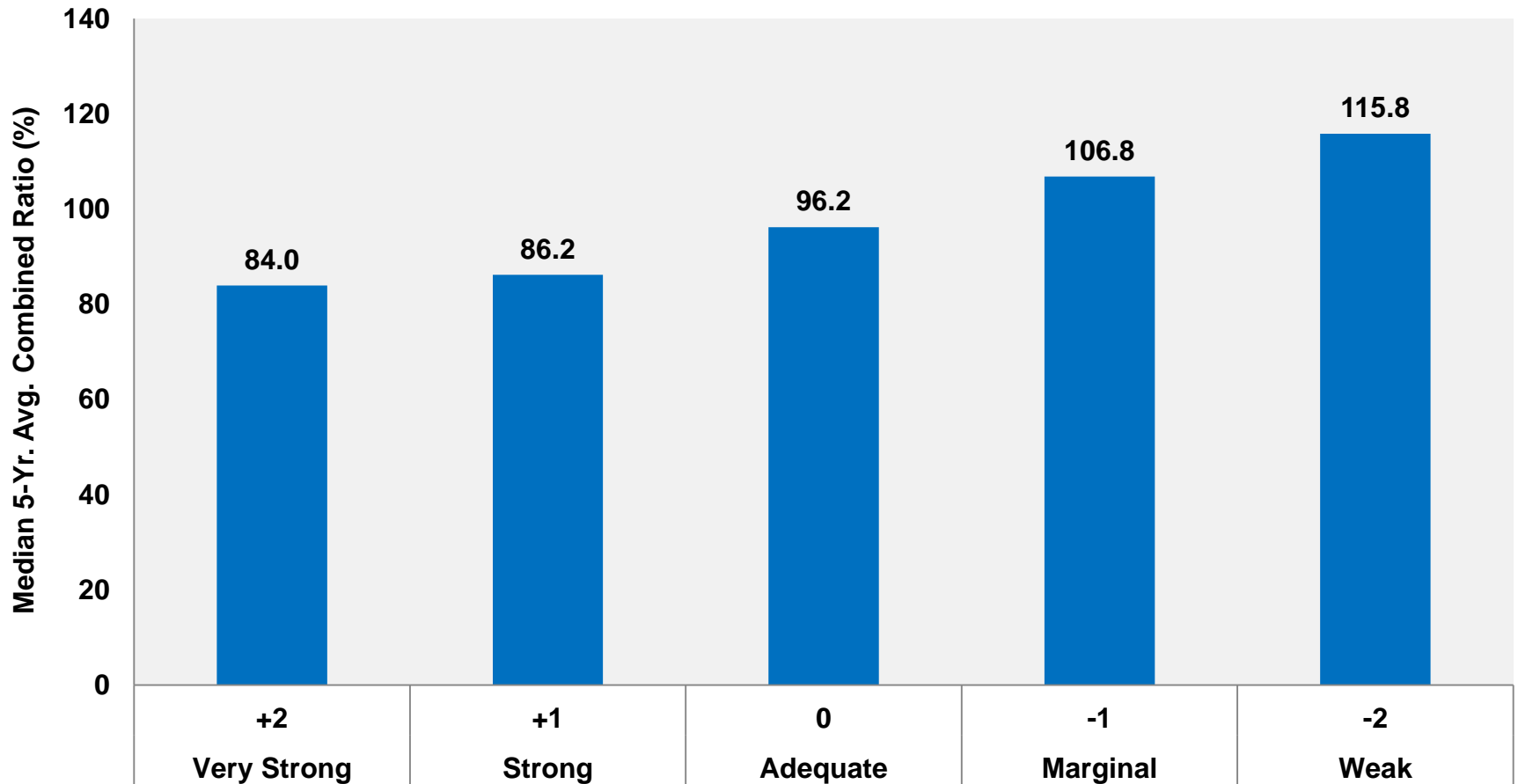


Source: A.M. Best Data and Research



U.S. Commercial Lines

Median 5-Year Average Combined Ratio by Operating Performance Notch

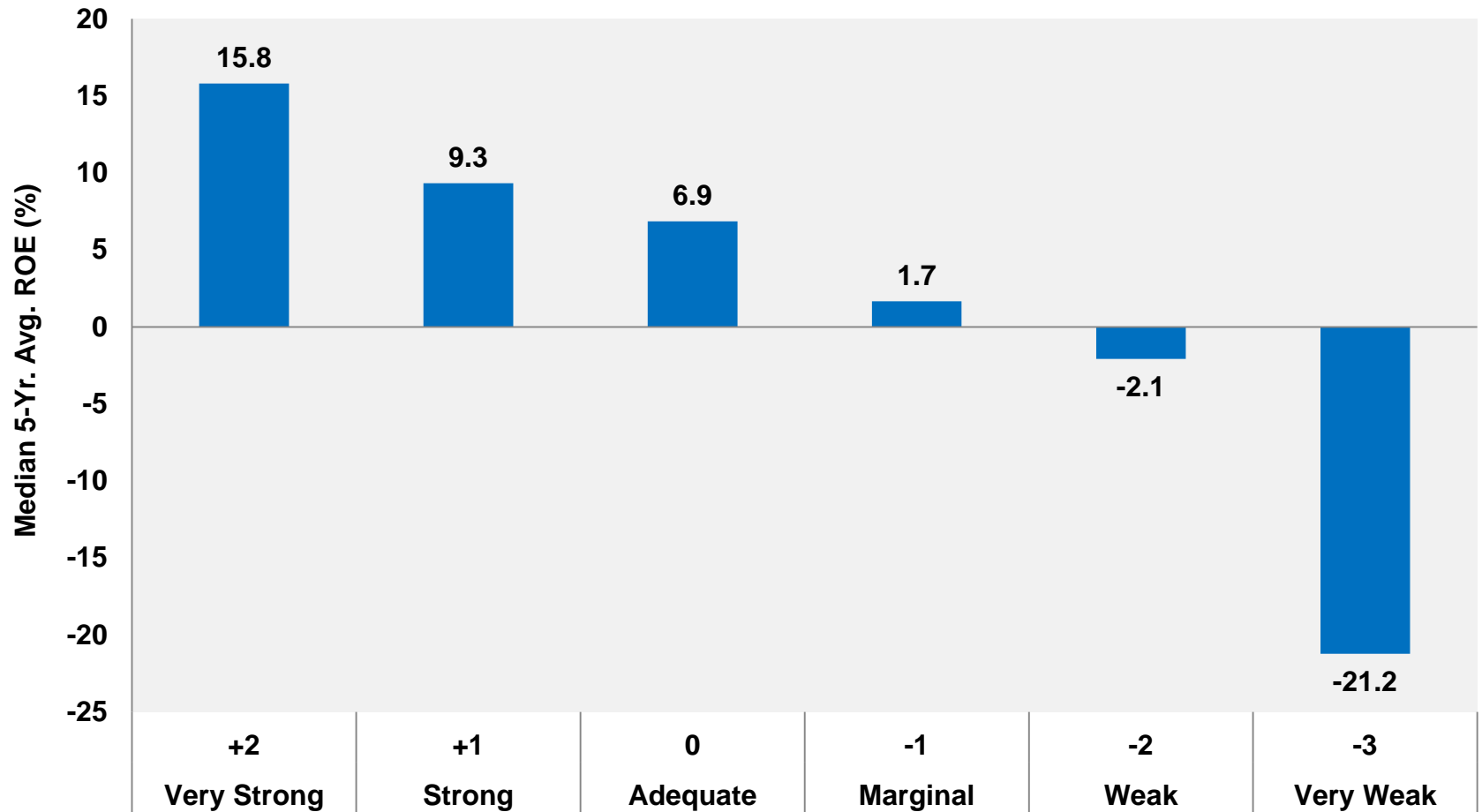


Source: A.M. Best Data and Research



U.S. Property/Casualty

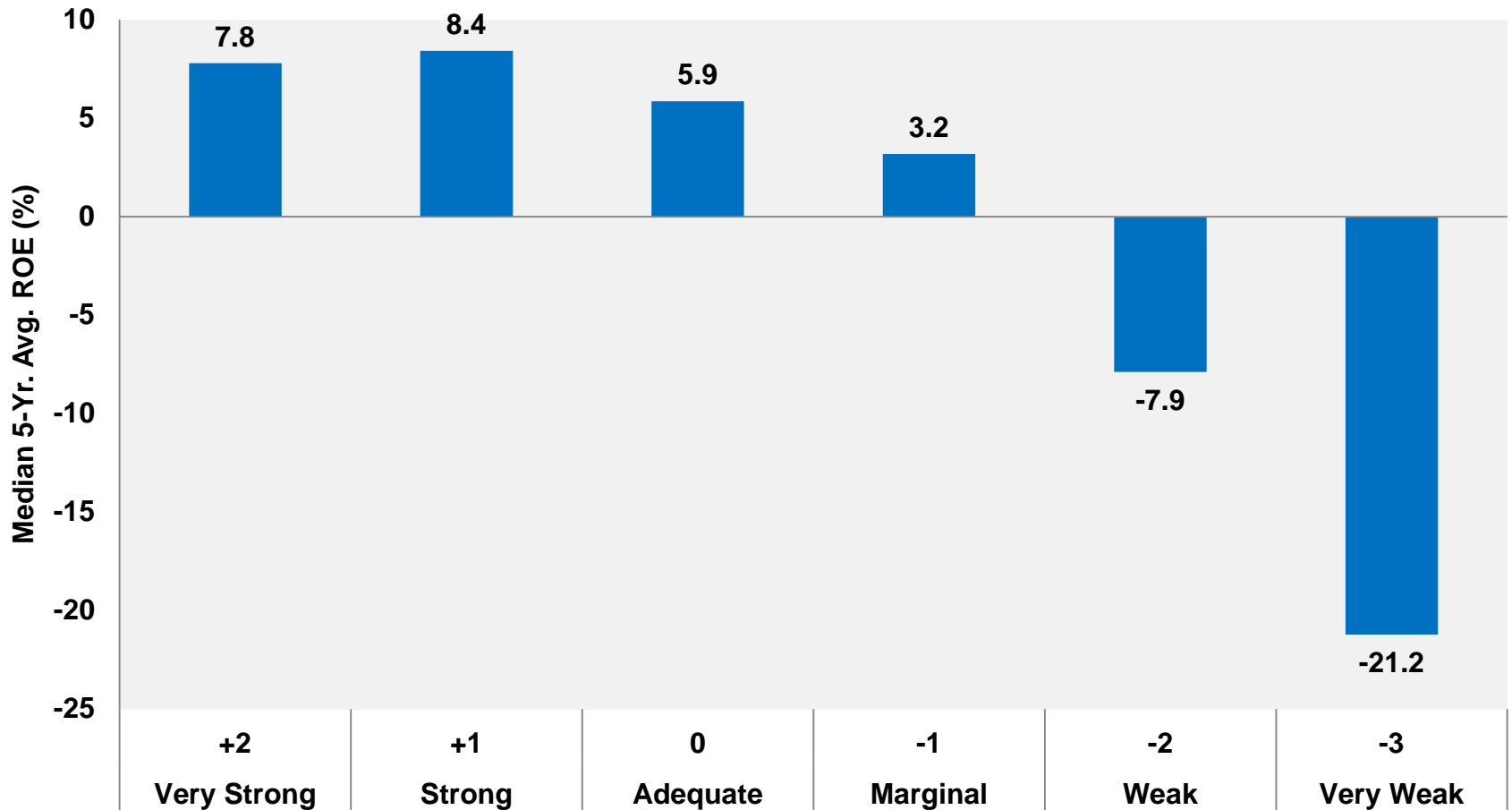
Median 5-Year Average ROE by Operating Performance Notch



Source: A.M. Best Data and Research

U.S. Personal Lines

Median 5-Year Average ROE by Operating Performance Notch

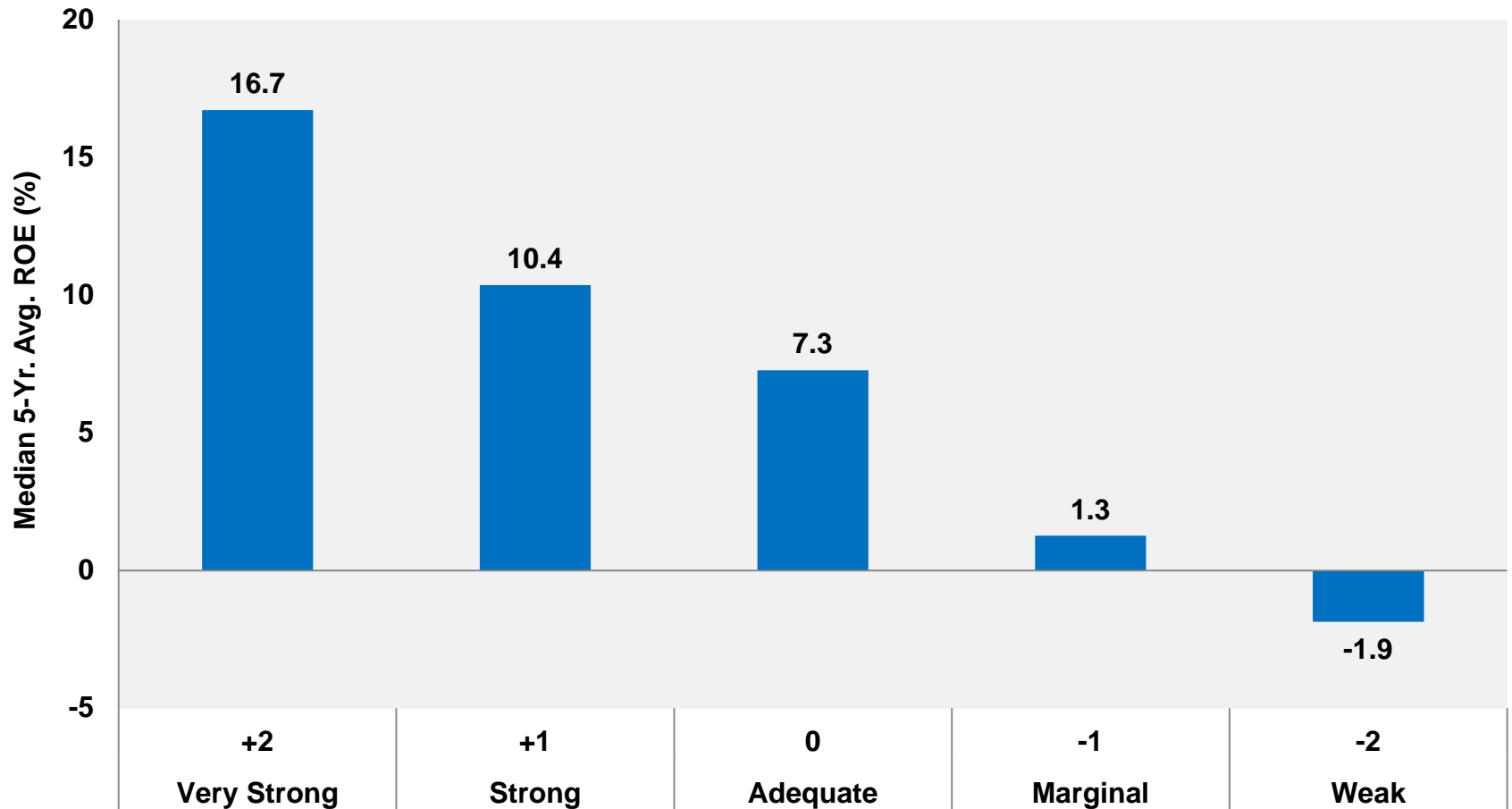


Source: A.M. Best Data and Research



U.S. Commercial Lines

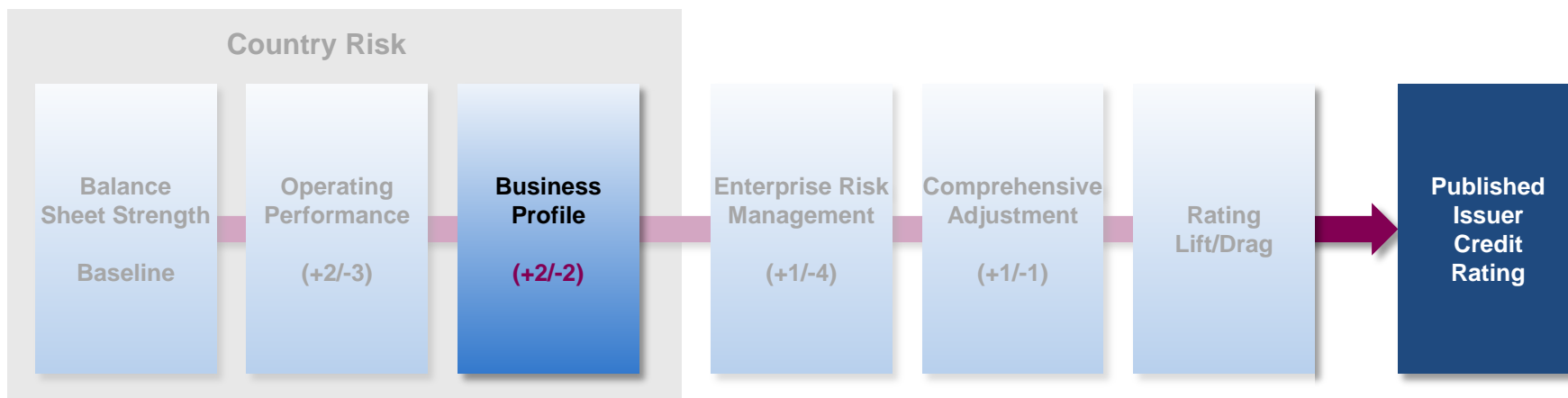
Median 5-Year Average ROE by Operating Performance Notch



Source: A.M. Best Data and Research



An Updated BCRM: Building Blocks

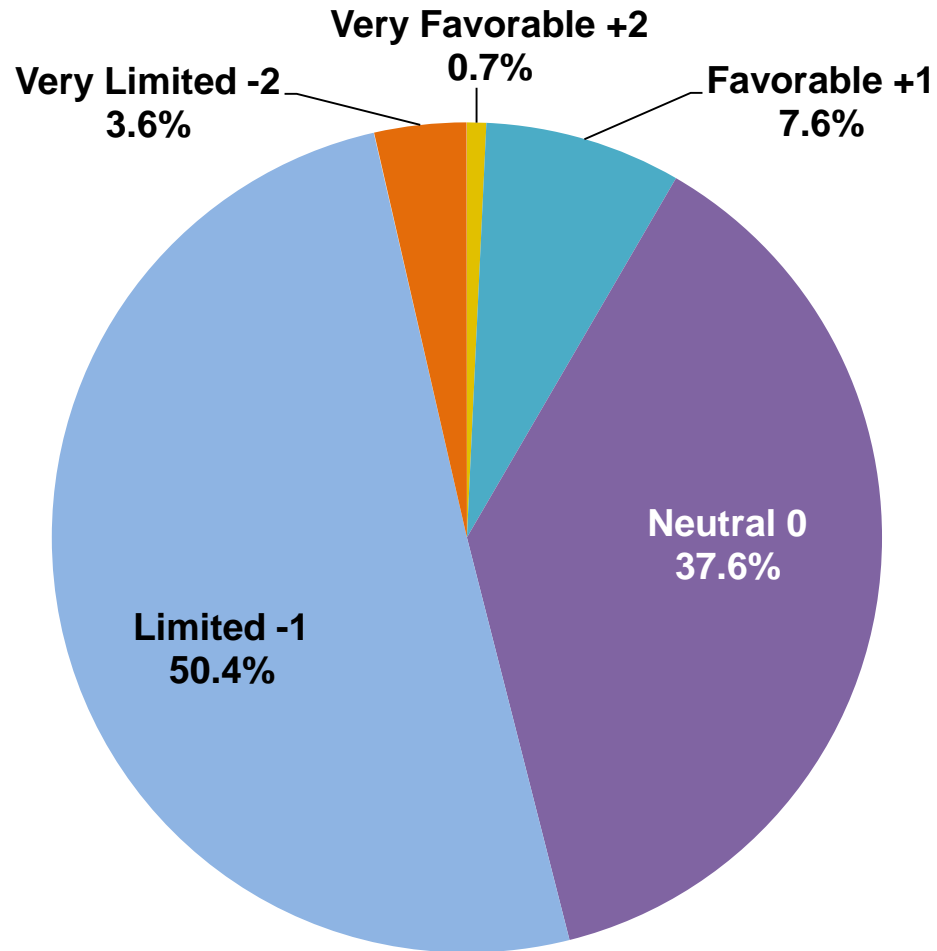


Business Profile Components

- Market Position
- Pricing Sophistication & Data Quality
- Product Risk
- Degree of Competition
- Management Quality
- Regulatory, Event, and Country Risks
- Distribution Channels
- Product/Geographic Concentration

U.S. Property/Casualty

Business Profile Notch Distribution

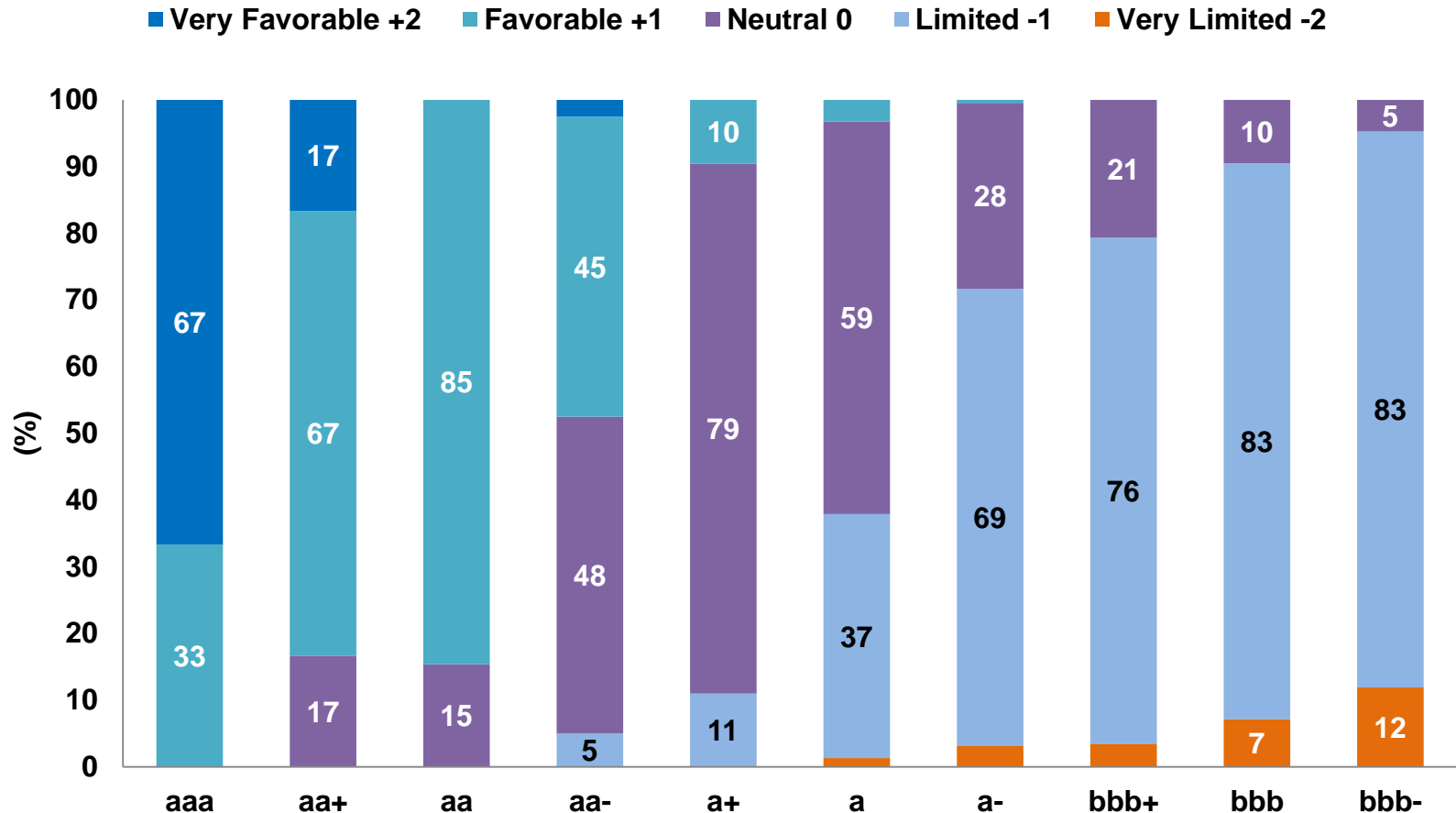


Source: A.M. Best Data and Research



U.S. Property/Casualty

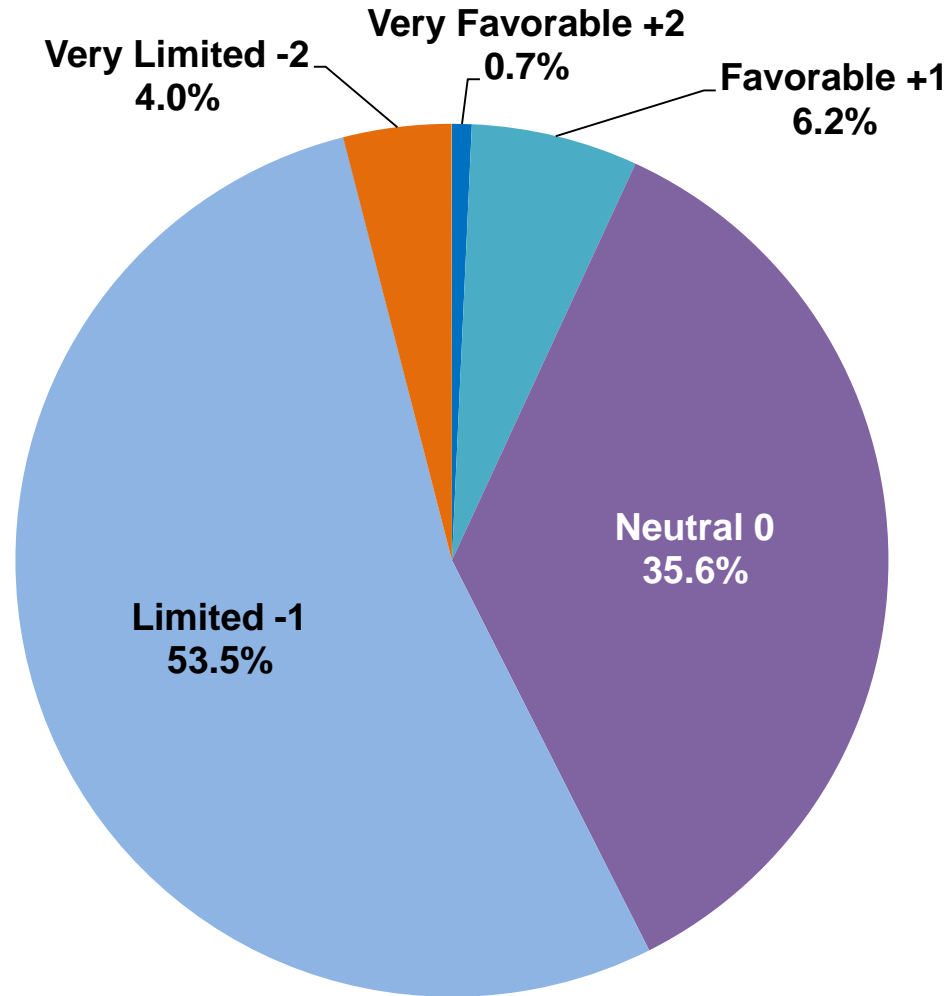
Business Profile Notch by Long-Term Issuer Credit Rating



Source: A.M. Best Data and Research

U.S. Personal Lines

Business Profile Notch Distribution

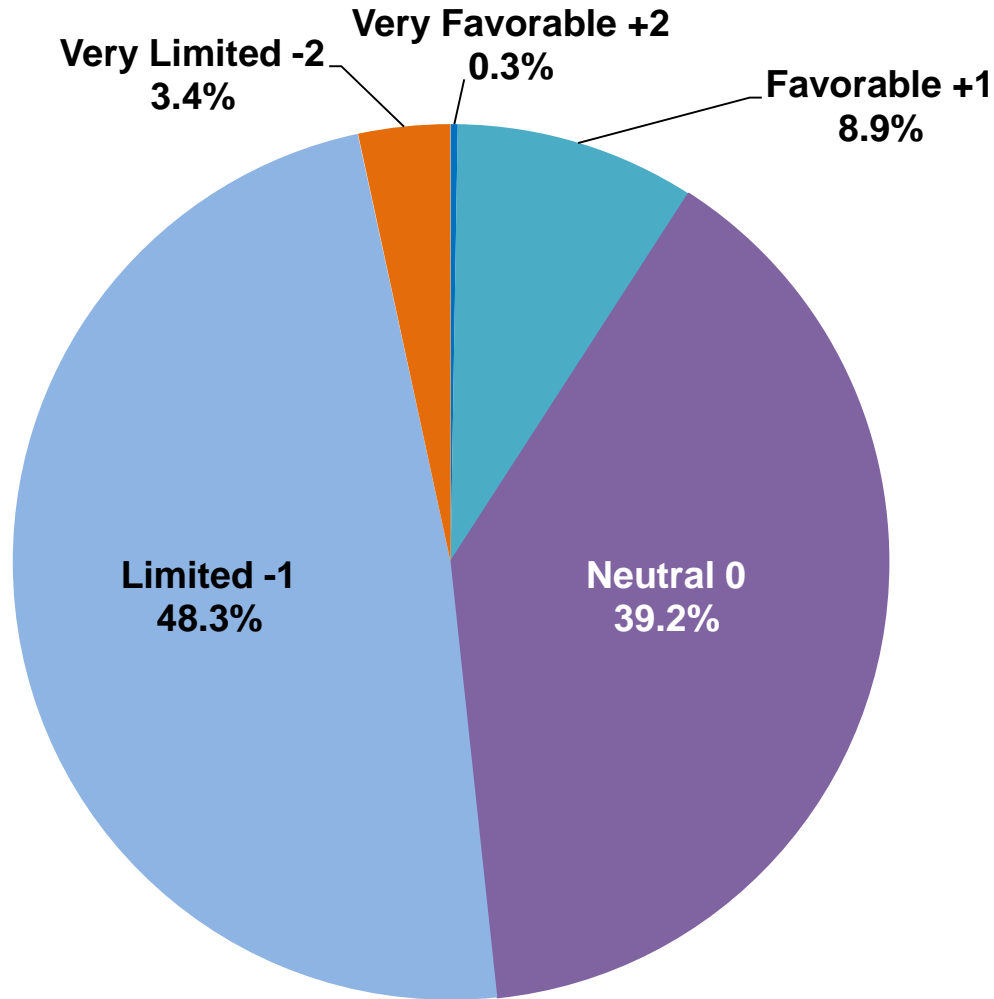


Source: A.M. Best Data and Research



U.S. Commercial Lines

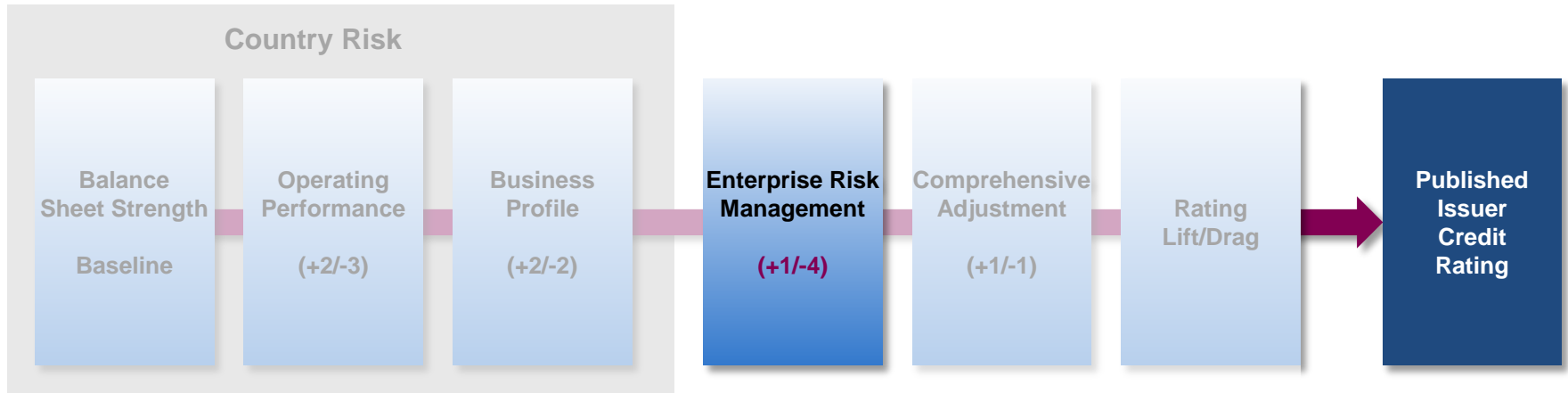
Business Profile Notch Distribution



Source: A.M. Best Data and Research



An Updated BCRM: Building Blocks

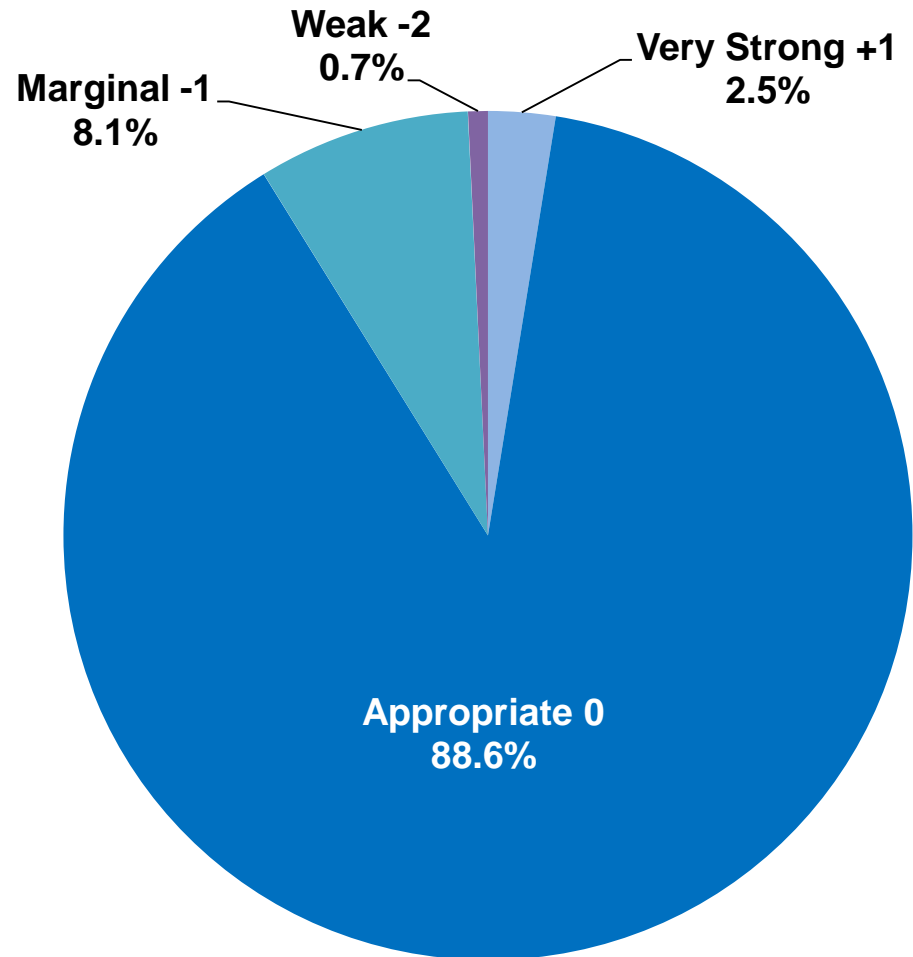


Enterprise Risk Management Framework Components

- Risk Identification and Reporting
- Risk Management and Controls
- Risk Appetite and Tolerances
- Governance and Risk Culture
- Stress Testing

U.S. Property/Casualty

Enterprise Risk Management Notch Distribution

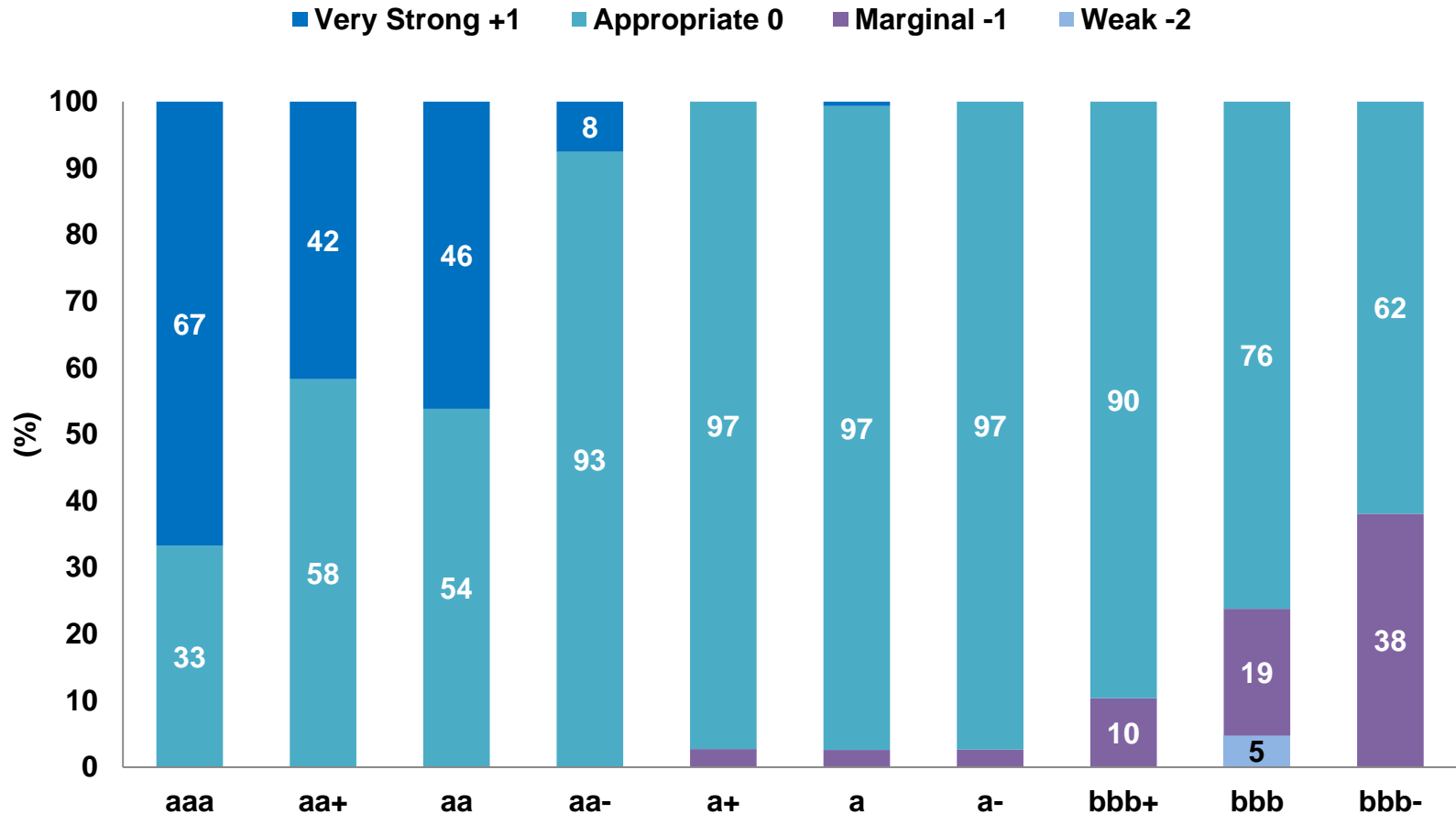


Source: A.M. Best Data and Research



U.S. Property/Casualty

Enterprise Risk Management Notch by Long-Term Issuer Credit Rating



Source: A.M. Best Data and Research





U.S. Property/Casualty

Most Common Notch by Long-Term Issuer Credit Rating

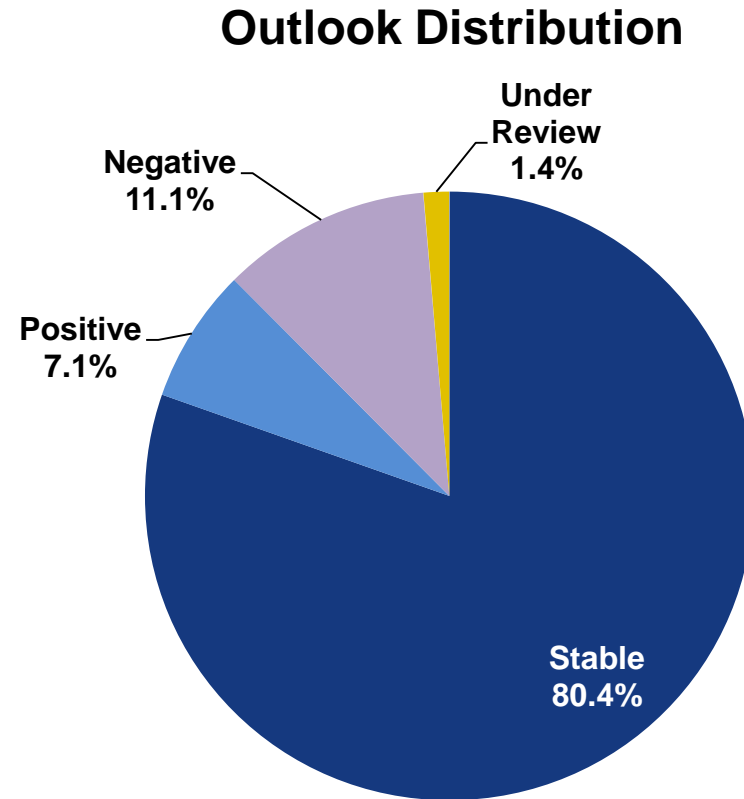
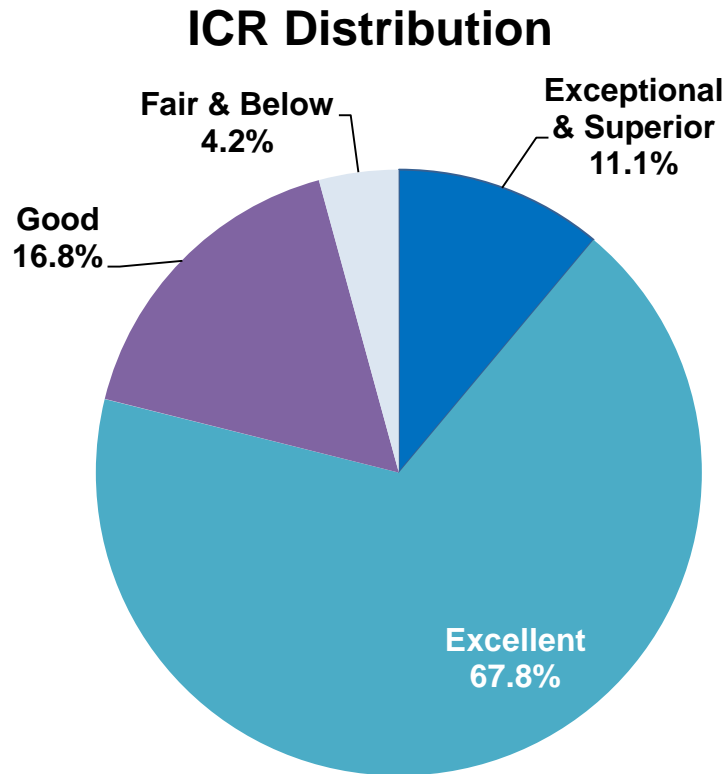
ICR	Balance Sheet	Operating Performance	Business Profile	Enterprise Risk Management
aaa	Strongest	+2	+2	+1
aa+	Strongest	+1	+1	0
aa	Strongest	+1	+1	0
aa-	Strongest	+1	0	0
a+	Strongest	+1	0	0
a	Strongest	0	0	0
a-	Very Strong	0	-1	0
bbb+	Very Strong	0	-1	0
bbb	Strong	0	-1	0
bbb-	Strong	-1	-1	0

Source: A.M. Best Data and Research



U.S. Property/Casualty

Long-Term Issuer Credit Rating and Outlook Distribution



The ICR rating and outlook distributions are as of October 2, 2017.

Source: A.M. Best Data and Research

U.S. Life/Annuity Benchmarking

Ken Johnson, CFA, CAIA, FRM

Senior Director

Edward Kohlberg, CPA, FLMI, CLU

Associate Director

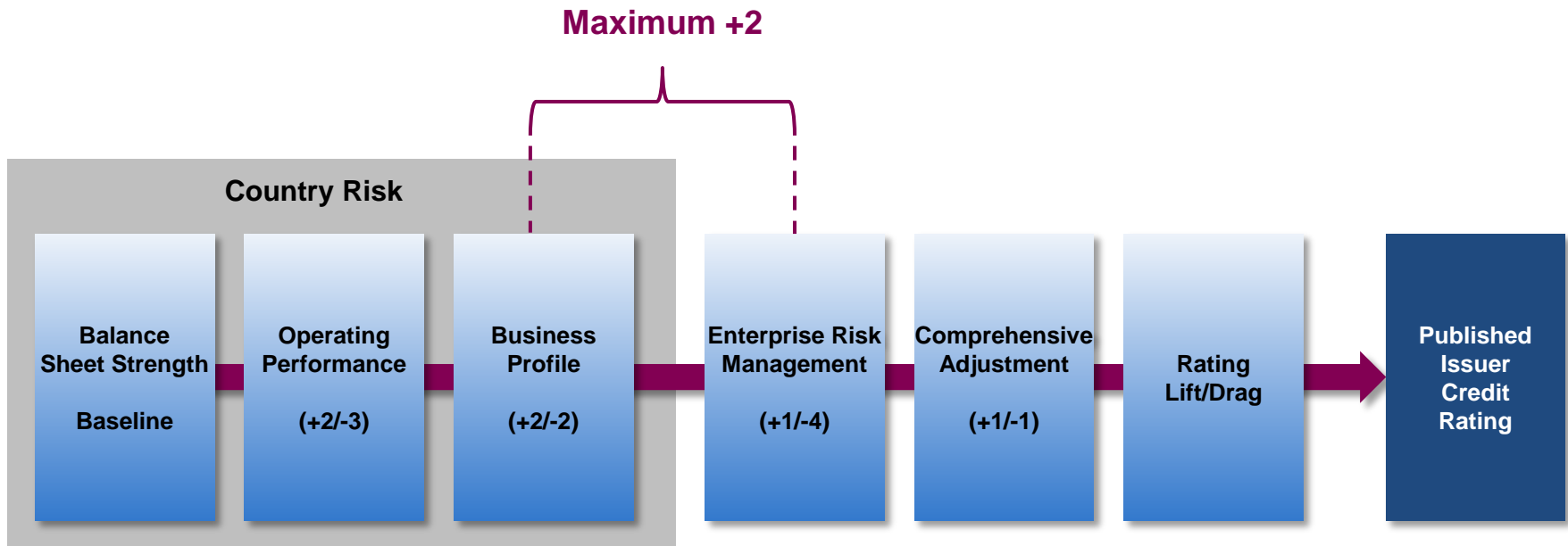


Agenda

Discuss Building Block Approach

Review of the Rating Drivers in A. M. Best's New Methodology

An Updated BCRM: Building Blocks



U.S. Life/Annuity

Most Common Notch by Long-Term Issuer Credit Rating

ICR	Balance Sheet	Operating Performance	Business Profile	Enterprise Risk Management
aaa	Strongest	+2	+2	+1
aa+	Strongest	+1	+1	0
aa	Strongest	+1	+1	0
aa-	Strongest	+1	+1	0
a+	Very Strong	+1	+1	0
a	Very Strong	0	0	0
a-	Very Strong	0	0	0
bbb+	Very Strong	0	0	0
bbb	Strong	0	-1	0
bbb-	Strong	-1	-1	0

Source: A.M. Best Data and Research



An Updated BCRM: Building Blocks

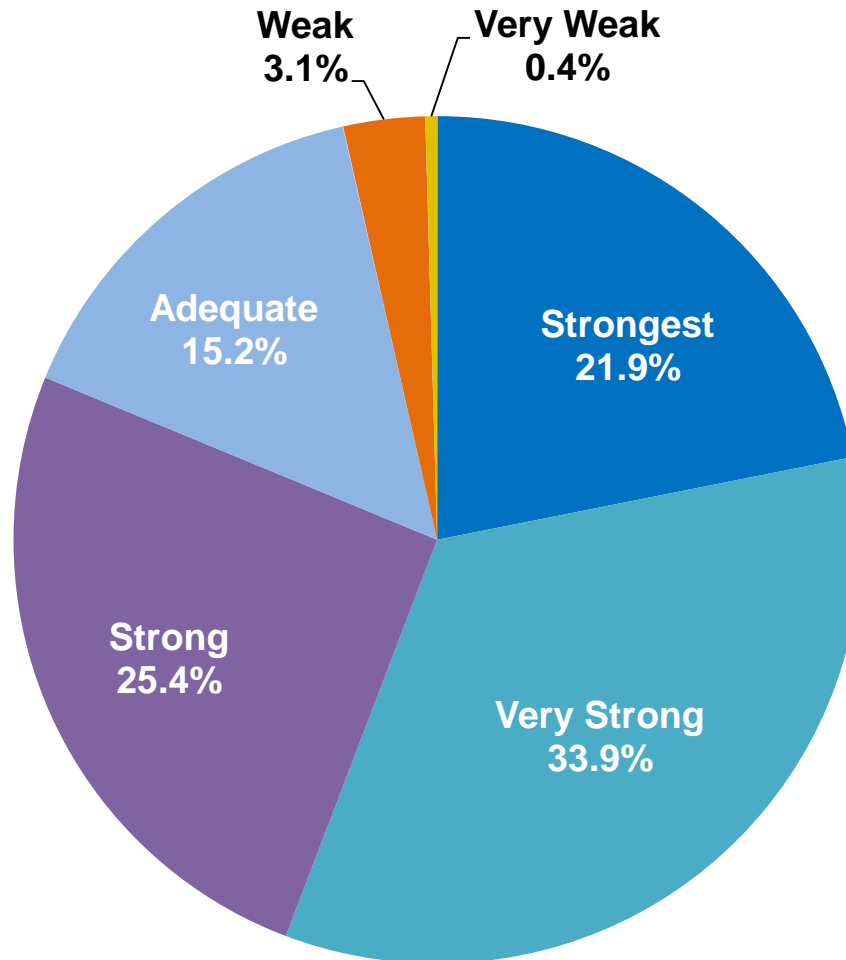


Balance Sheet Strength Components

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- Liquidity
- Asset Liability Management
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- Quality of Reinsurance
- Reinsurance Dependence
- Appropriateness of Reinsurance Program
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U.S. Life/Annuity

Balance Sheet Strength Distribution

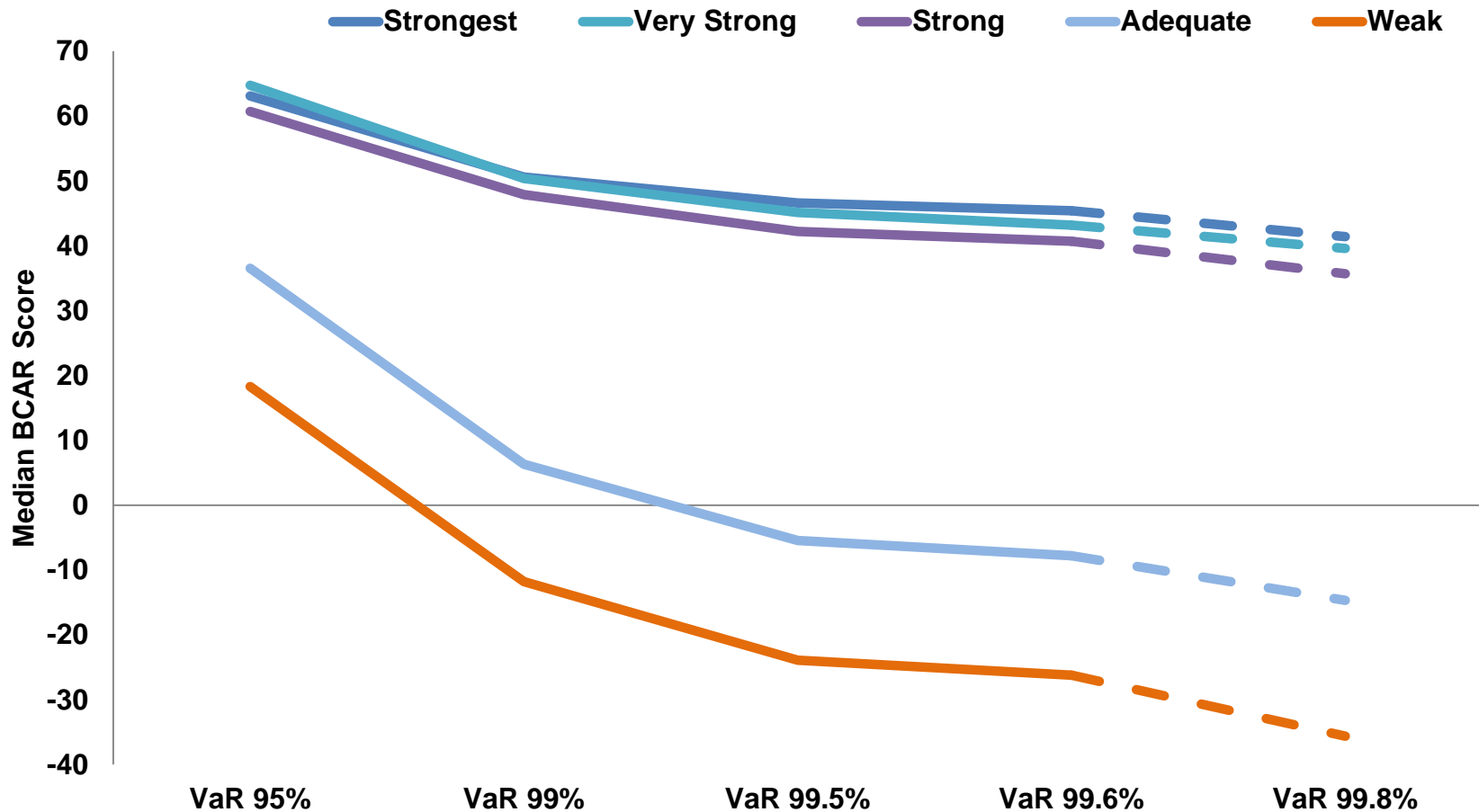


Source: A.M. Best Data and Research



U.S. Life/Annuity

Median BCAR Score by Balance Sheet Strength

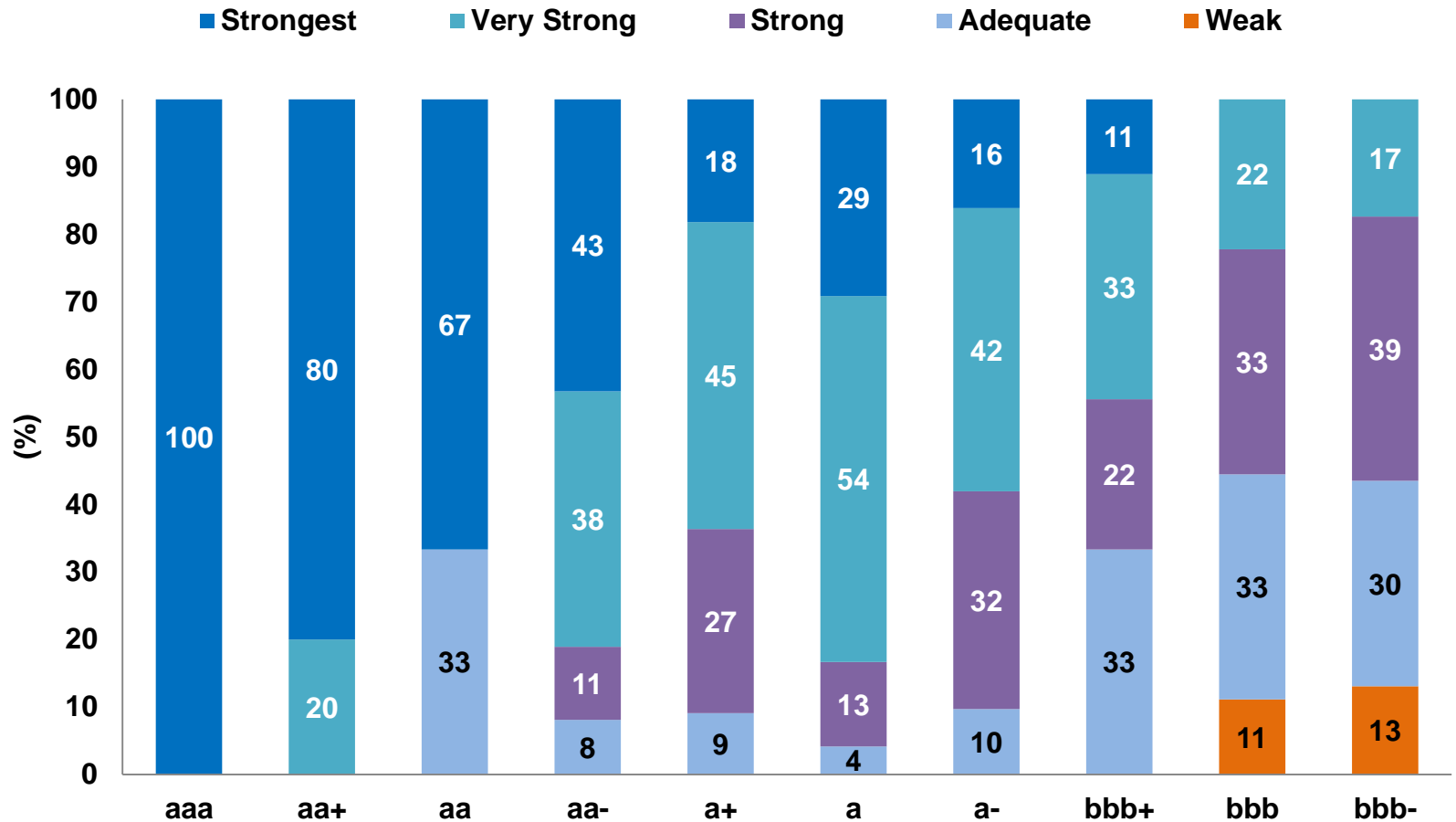


Source: A.M. Best Data and Research



U.S. Life/Annuity

Balance Sheet Strength by Long-Term Issuer Credit Rating



Source: A.M. Best Data and Research



An Updated BCRM: Building Blocks

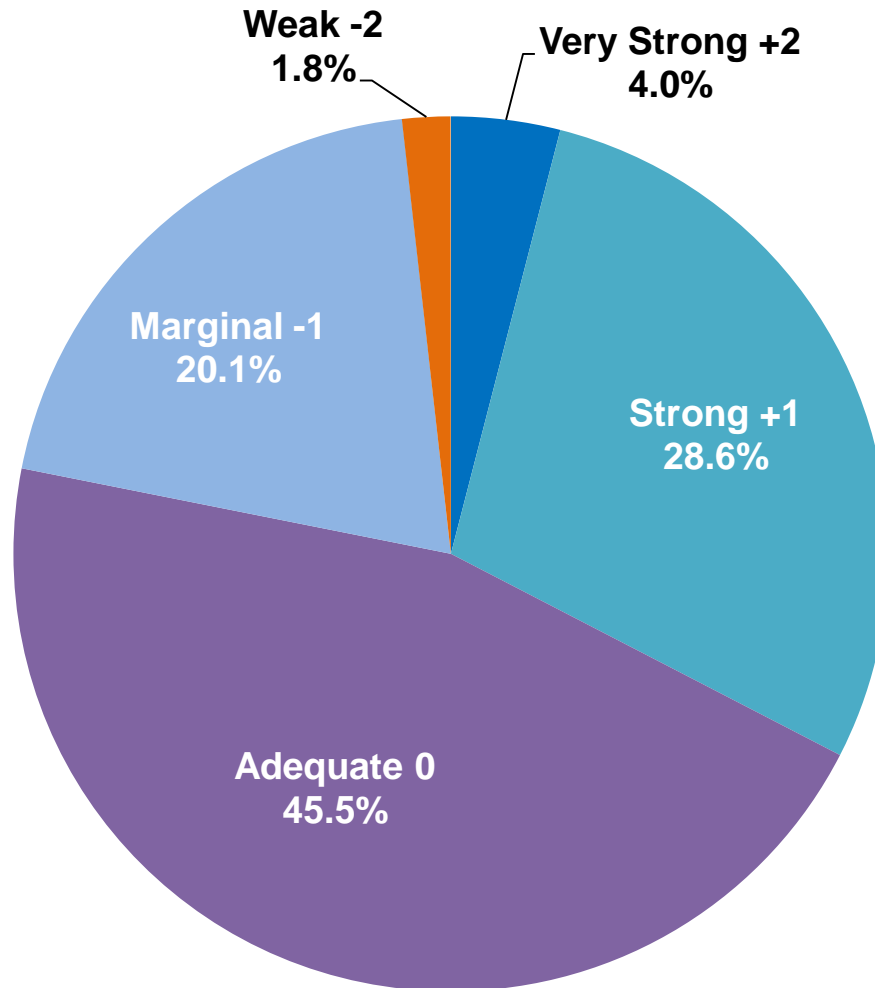


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- Change in NPW
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- Financial Forecasts/Plans
- NOG to Total Assets
- Net Yield
- Pre-Tax Total Return
- Pre-Tax Operating ROR
- Operating ROE

U.S. Life/Annuity

Operating Performance Notch Distribution

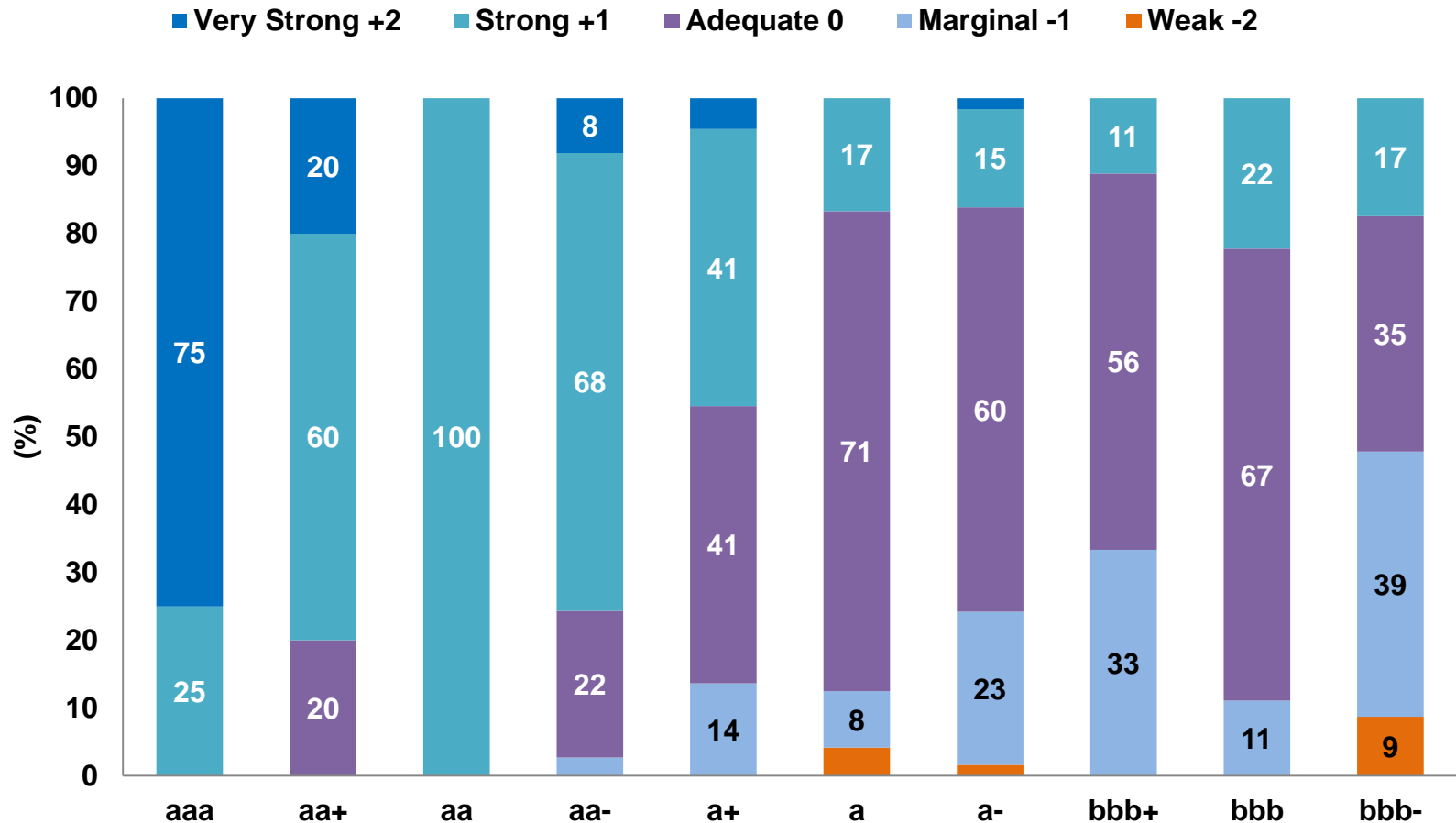


Source: A.M. Best Data and Research



U.S. Life/Annuity

Operating Performance Notch by Long-Term Issuer Credit Rating

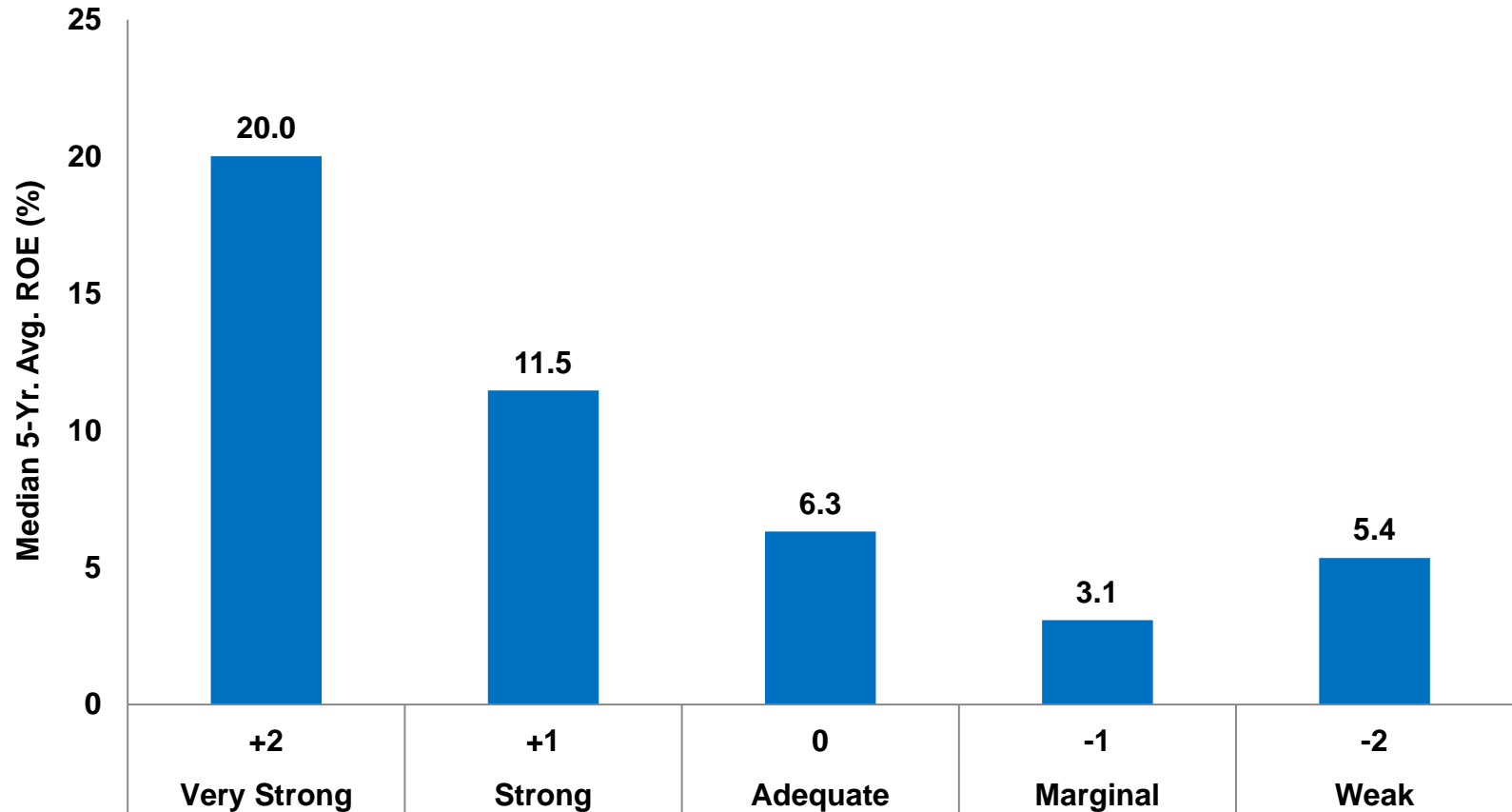


Source: A.M. Best Data and Research



U.S. Life/Annuity

Median 5-Year Average ROE by Operating Performance Notch



Source: A.M. Best Data and Research



An Updated BCRM: Building Blocks

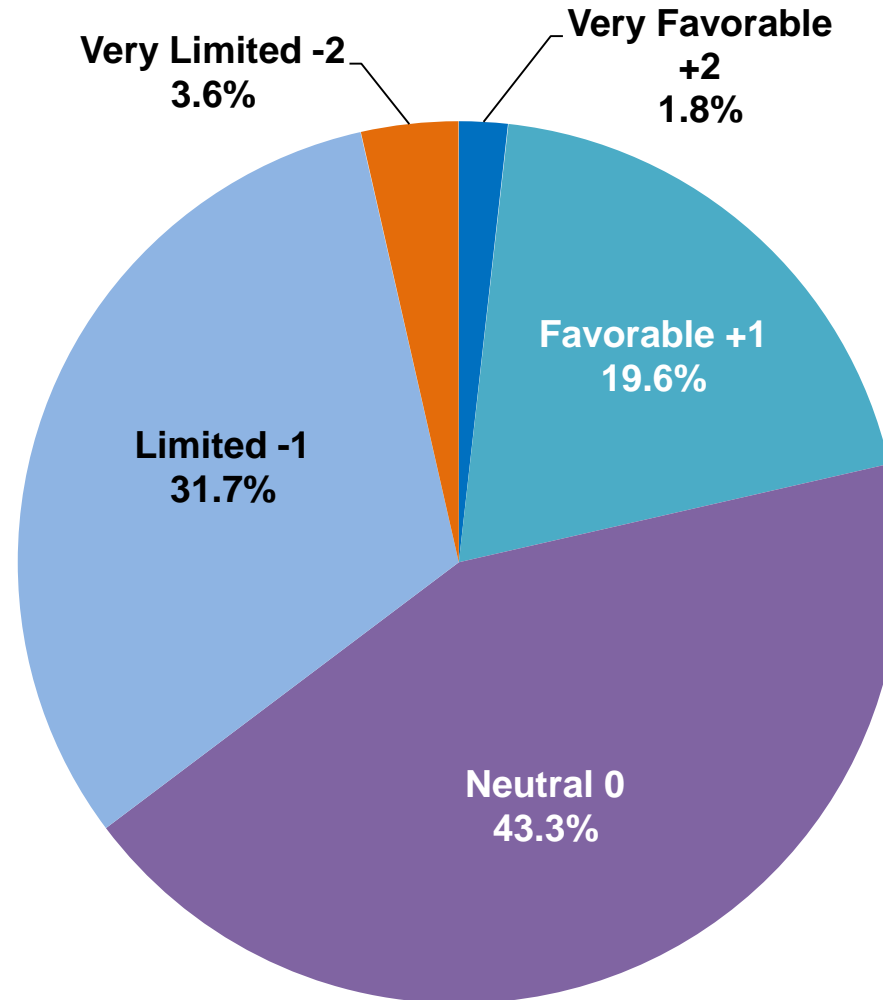


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- Market Position
- Pricing Sophistication & Data Quality
- Product Risk
- Degree of Competition
- Management Quality
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U.S. Life/Annuity

Business Profile Notch Distribution

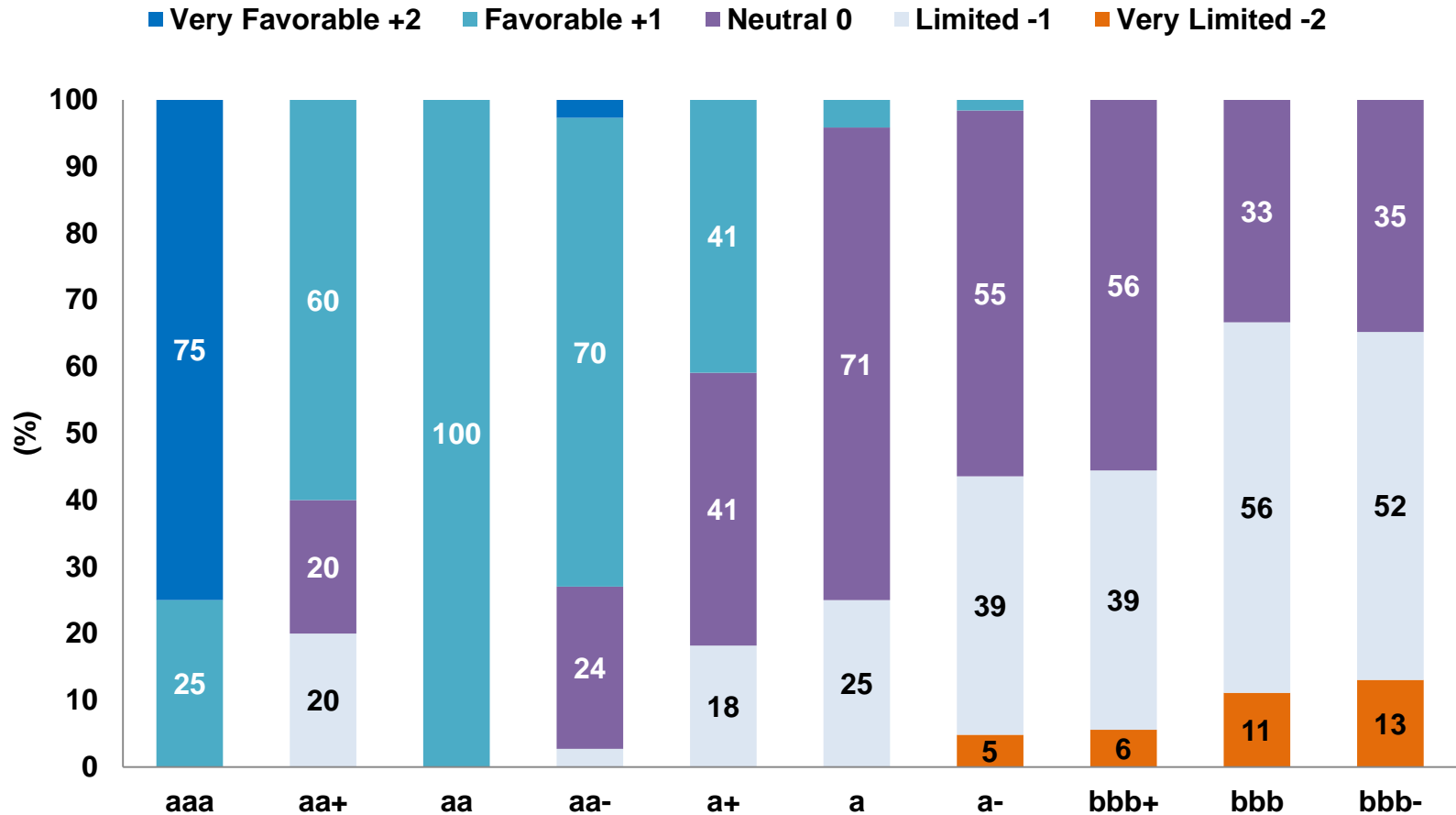


Source: A.M. Best Data and Research



U.S. Life/Annuity

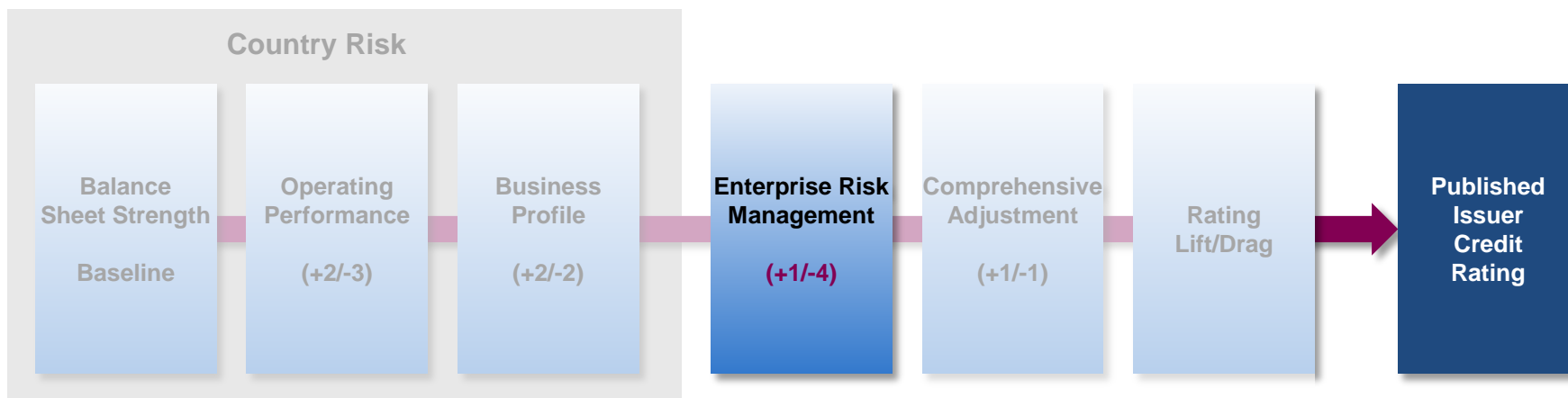
Business Profile Notch by Long-Term Issuer Credit Rating



Source: A.M. Best Data and Research



An Updated BCRM: Building Blocks

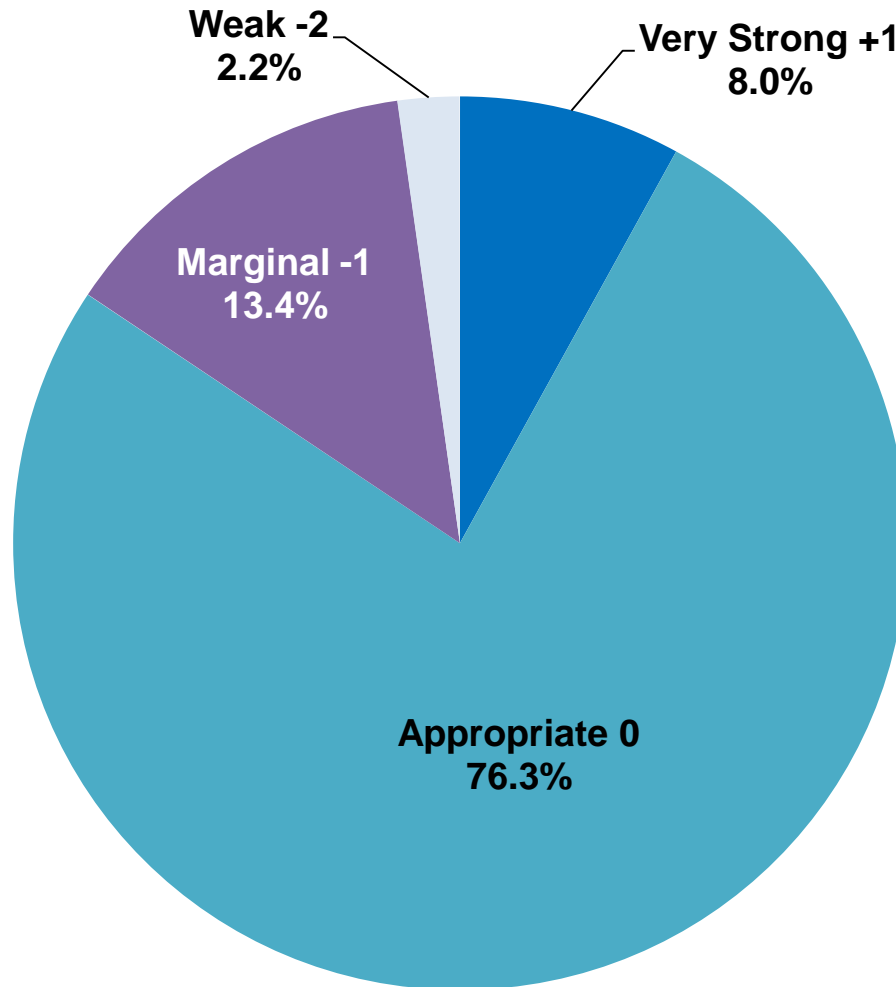


Enterprise Risk Management Framework Components

- Risk Identification and Reporting
- Risk Management and Controls
- Risk Appetite and Tolerances
- Governance and Risk Culture
- Stress Testing

U.S. Life/Annuity

Enterprise Risk Management Notch Distribution

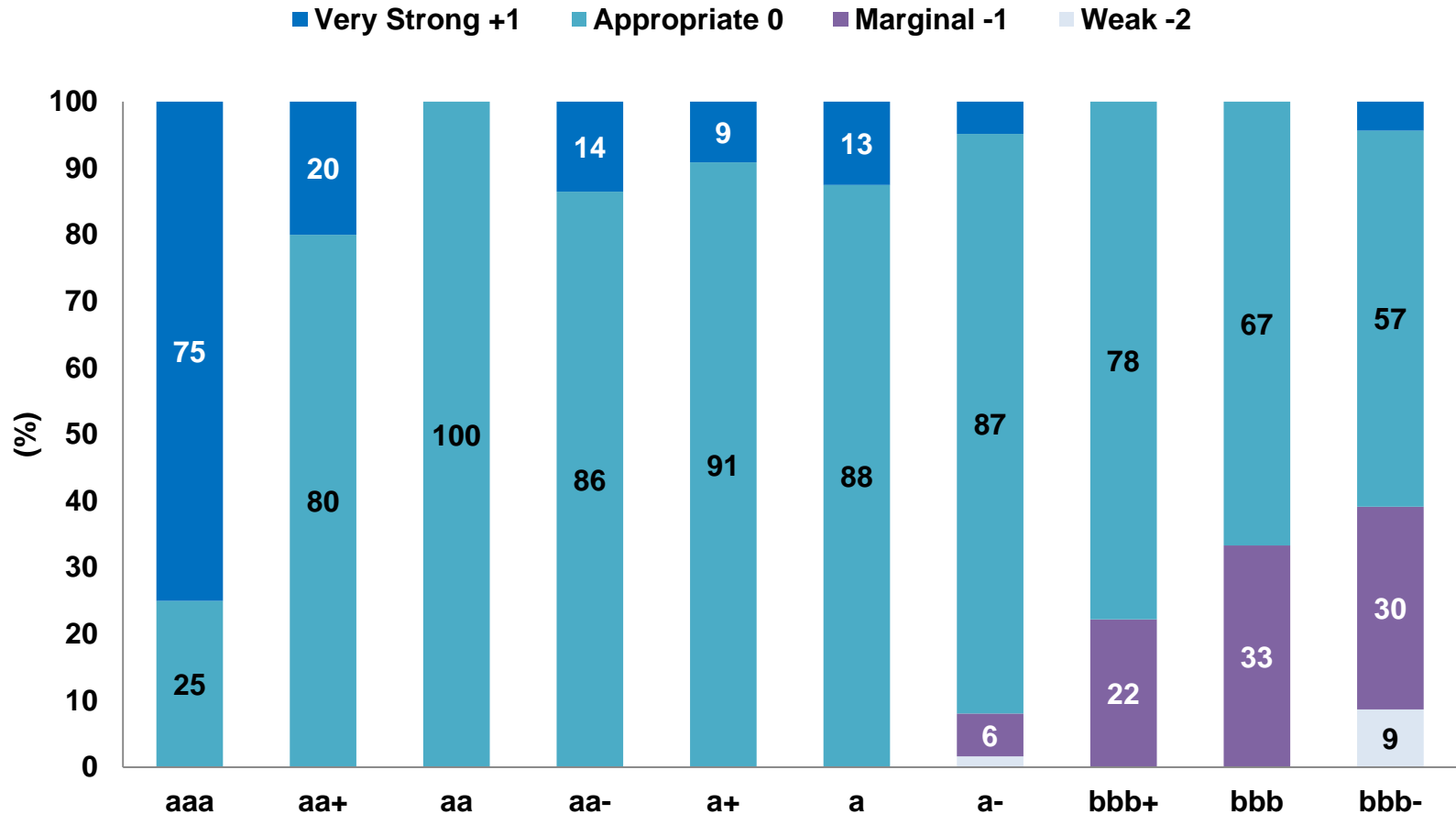


Source: A.M. Best Data and Research



U.S. Life/Annuity

Enterprise Risk Management Notch by Long-Term Issuer Credit Rating



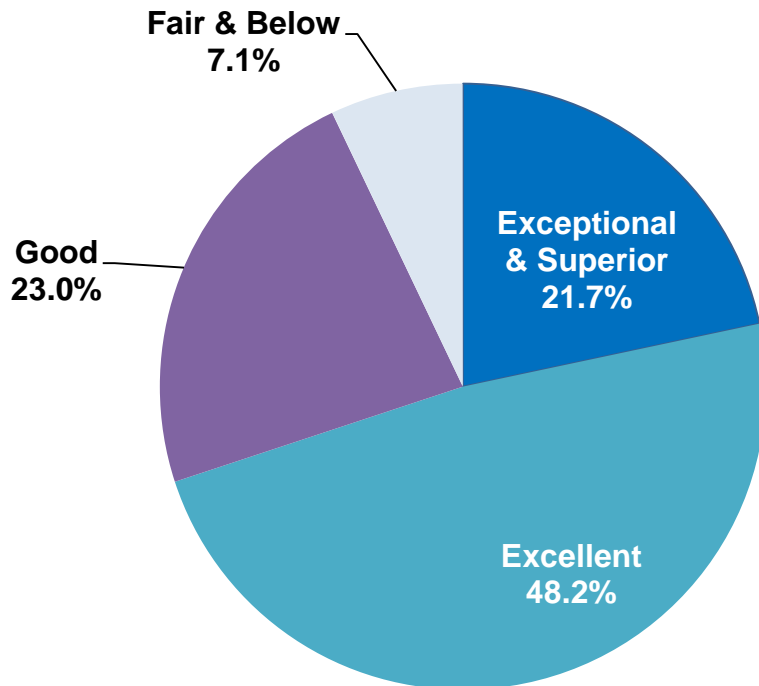
Source: A.M. Best Data and Research



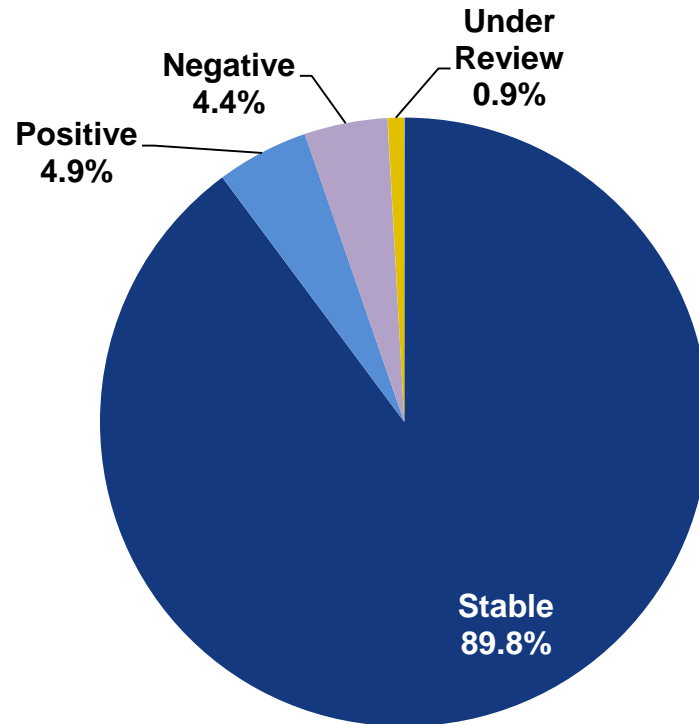
U.S. Life/Annuity

Long-Term Issuer Credit Rating and Outlook Distribution

ICR Distribution



Outlook Distribution



The ICR rating and outlook distributions are as of September 19, 2017.

Source: A.M. Best Data and Research

U.S. Health Industry

Sally Rosen,
Senior Director



Agenda

Review of the Rating Drivers in A.M. Best's New Methodology

Discuss Building Block Approach

Next Steps Towards the Final Release of the New Methodology



U.S. Health

Most Common Notch by Long-Term Issuer Credit Rating

ICR	Balance Sheet	Operating Performance	Business Profile	Enterprise Risk Management
aa-	Strongest	+1	0	0
a+	Very Strong	+1	0	0
a	Strongest	0	0	0
a-	Strongest	0	0	0
bbb+	Very Strong	-1	-1	0
bbb	Very Strong	0	-1	0
bbb-	Adequate	0	-1	0

Source: A.M. Best Data and Research



An Updated BCRM: Building Blocks

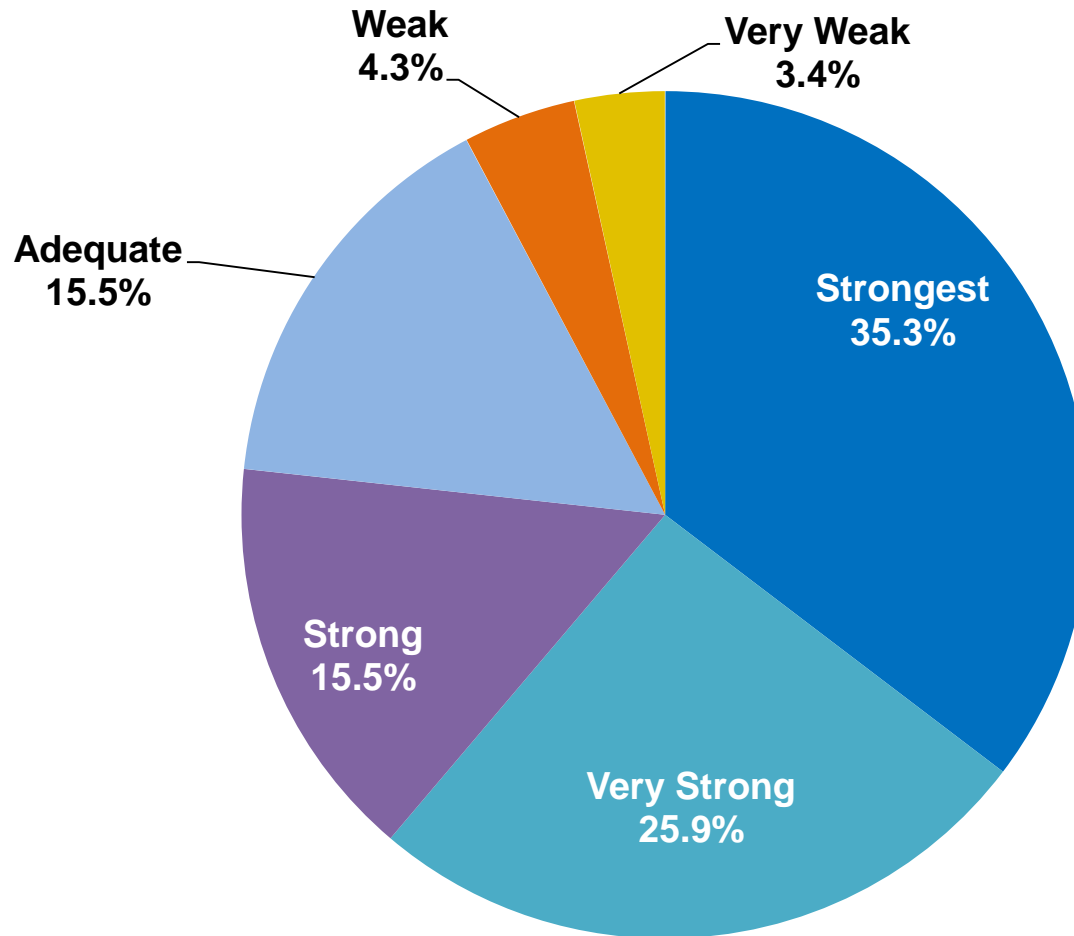


Balance Sheet Strength Components

- BCAR
- Tests
- Liquidity
- Asset Liability Management
- Internal Capital Models
- Quality of Capital Stress
- Quality of Reinsurance
- Reinsurance Dependence
- Appropriateness of Reinsurance Program
- Distribution Channels

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Balance Sheet Strength Distribution



Source: A.M. Best Data and Research



An Updated BCRM: Building Blocks

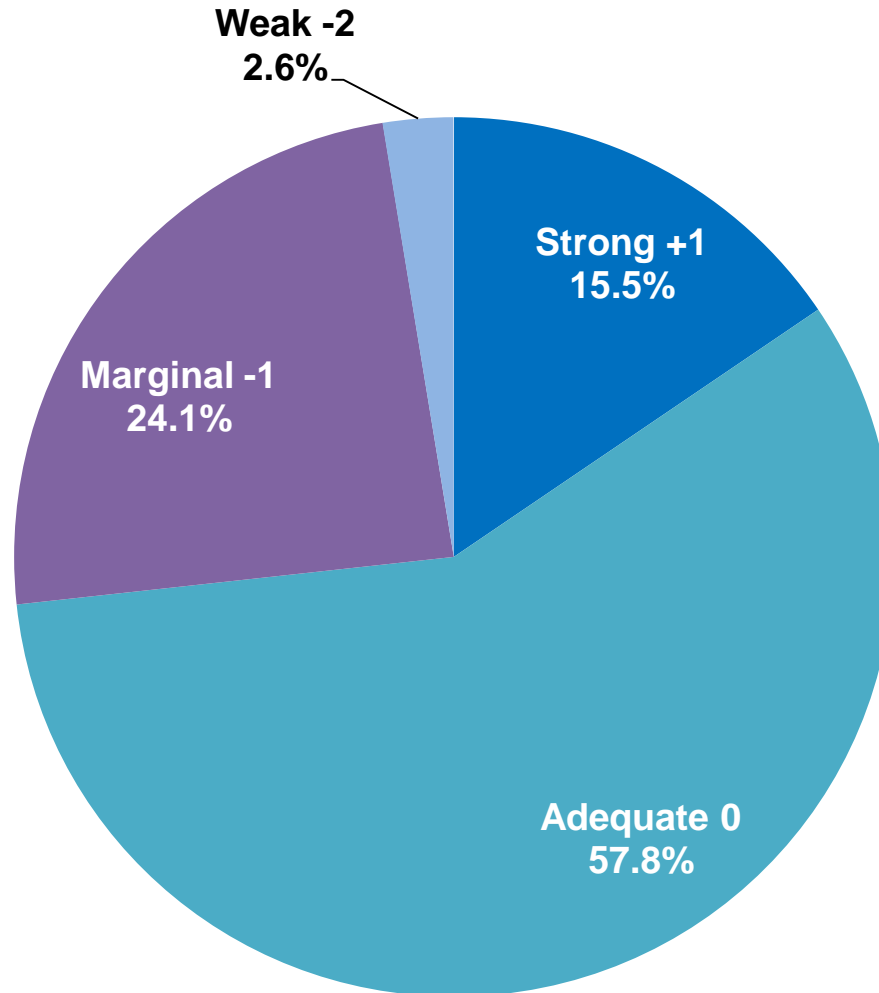


Operating Performance Components

- Change in NPW
- Change in Total Reserves
- Financial Forecasts/Plans
- NOG to Total Assets
- Net Yield
- Pre-Tax Total Return
- Pre-Tax Operating ROR
- Operating ROE

U.S. Health

Operating Performance Notch Distribution

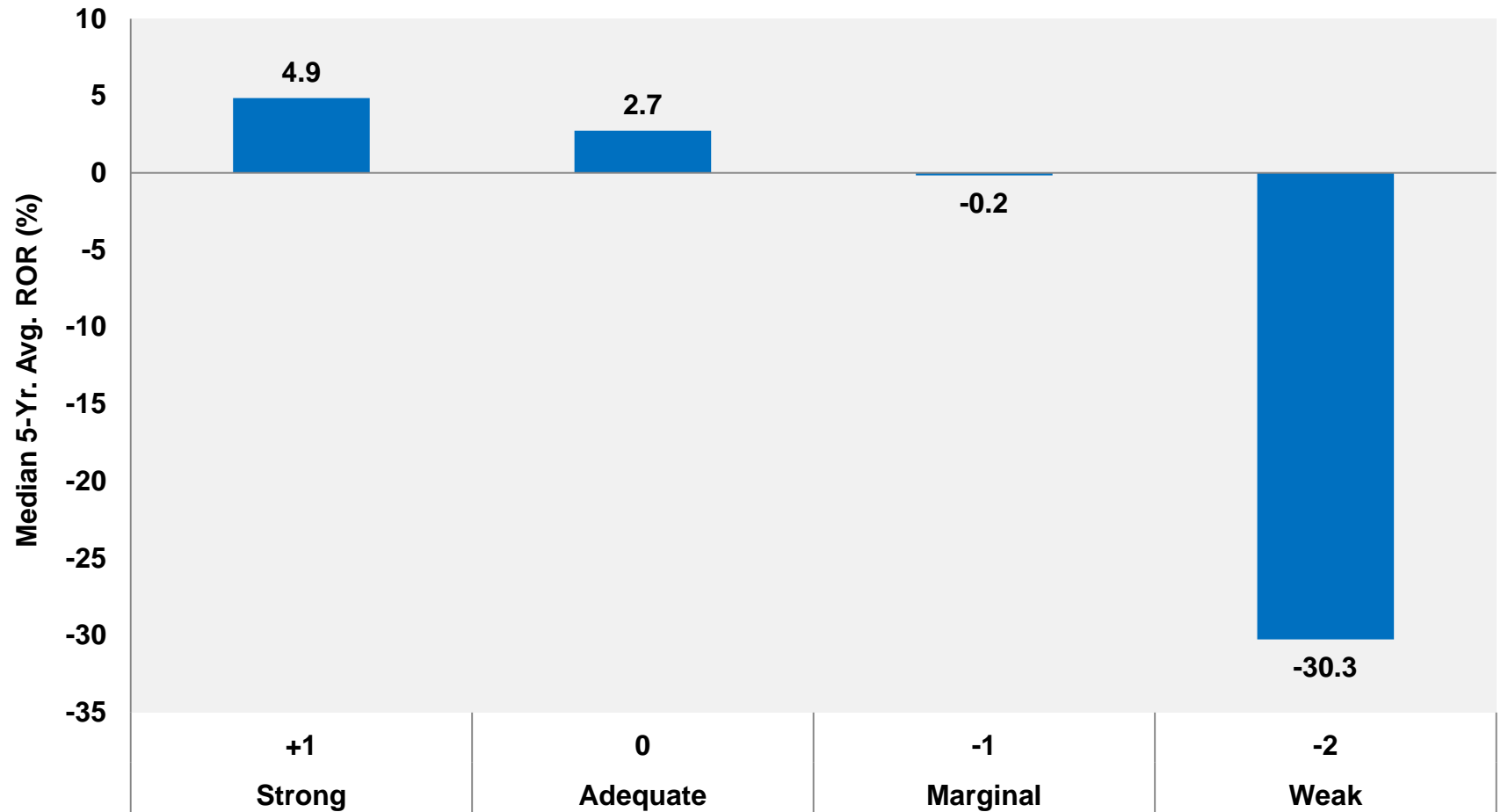


Source: A.M. Best Data and Research



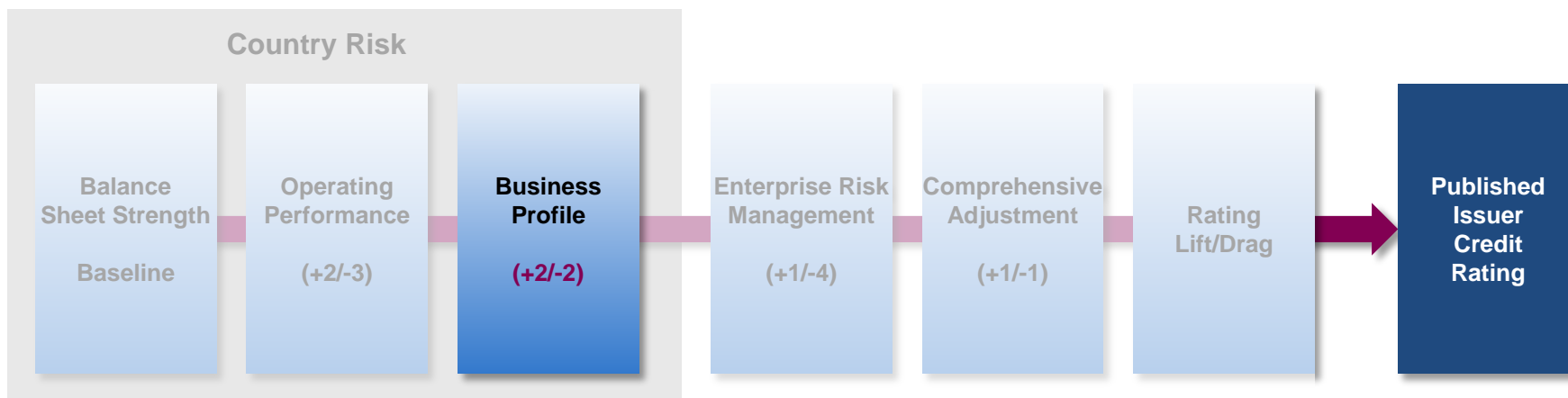
U.S. Health

Median 5-Year Average ROR by Operating Performance Notch



Source: A.M. Best Data and Research

An Updated BCRM: Building Blocks

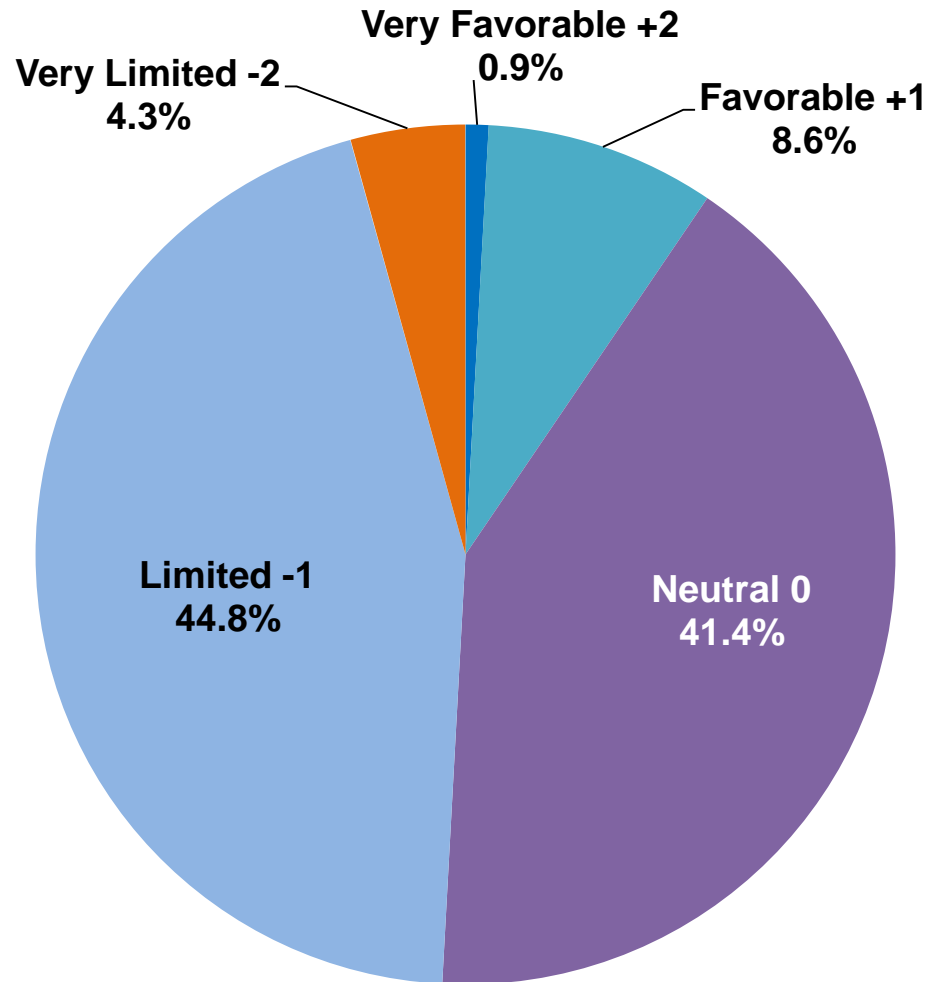


Business Profile Components

- Market Position
- Pricing Sophistication & Data Quality
- Product Risk
- Degree of Competition
- Management Quality
- Regulatory, Event, and Country Risks
- Distribution Channels
- Product/Geographic Concentration

U.S. Health

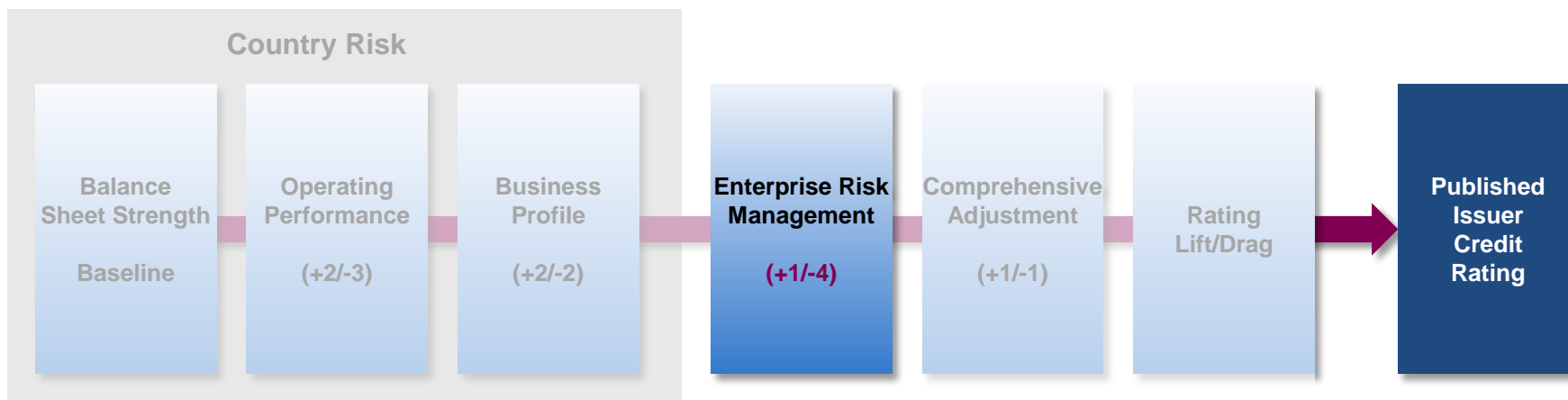
Business Profile Notch Distribution



Source: A.M. Best Data and Research



An Updated BCRM: Building Blocks

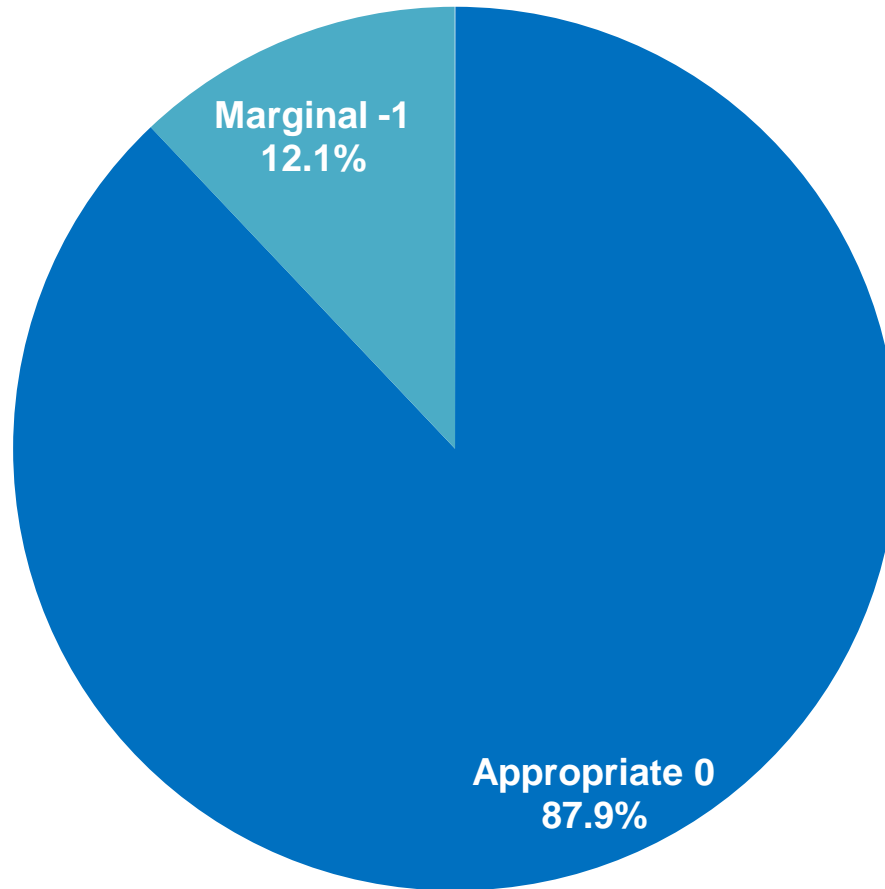


Enterprise Risk Management Framework Components

- Risk Identification and Reporting
- Risk Management and Controls
- Risk Appetite and Tolerances
- Governance and Risk Culture
- Stress Testing

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Enterprise Risk Management Notch Distribution

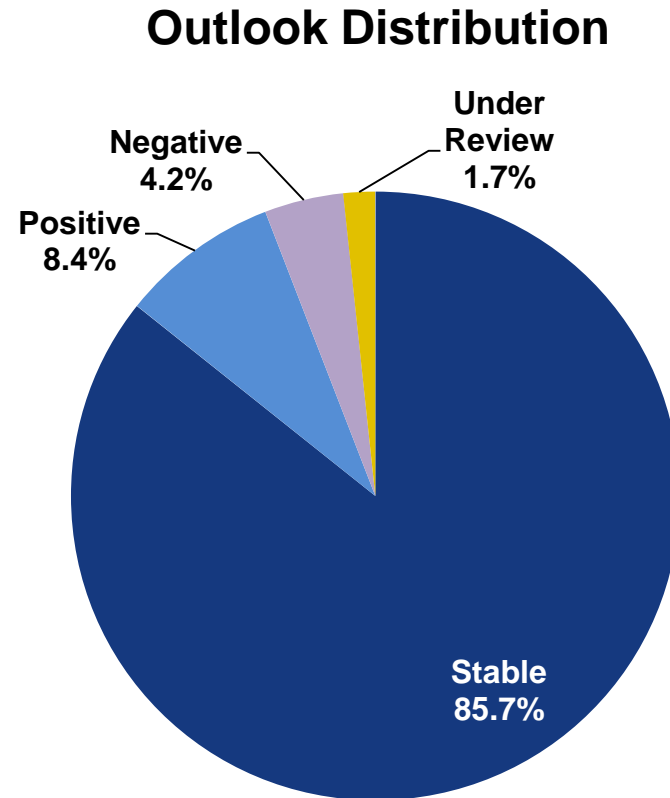
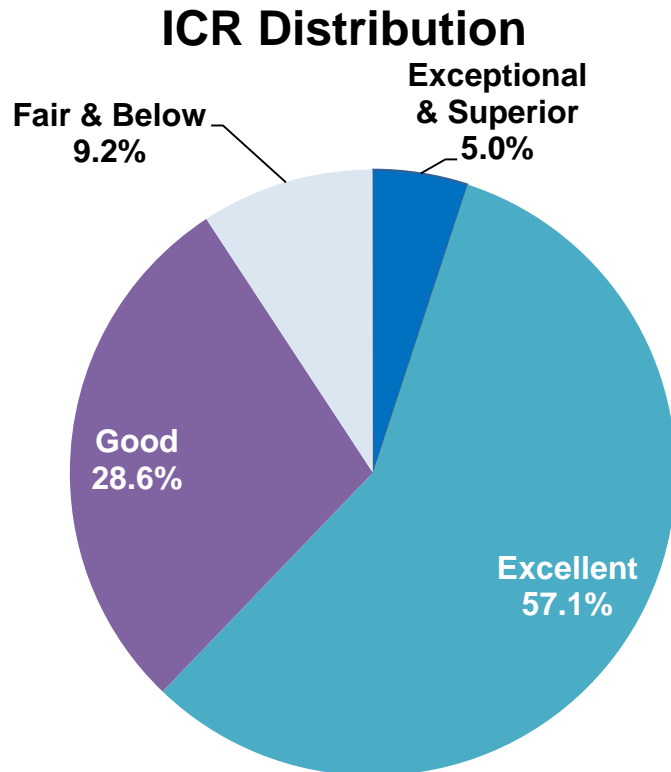


Source: A.M. Best Data and Research



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Long-Term Issuer Credit Rating and Outlook Distribution



The ICR rating and outlook distributions are as of October 5, 2017.

Source: A.M. Best Data and Research





Q & A





Thank You



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