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AM BEST'S WEEKLY INSURANCE NEWSLETTER

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AM BEST'S WEEKLY INSURANCE NEWSLETTER

Bermuda's Vantage, Conduit Re Enter Market With Clean Slates, Veteran Staffs

If "2020" can be used as an adjective, then last year was very 2020 for Christopher McKeown.

He and others spent the better part of the year planning Vantage Group Holdings Ltd. before it launched a reinsurer in December as the world struggled to deal with fallout from the COVID-19 pandemic.

Even though, as chief executive officer of reinsurance innovation and insurance-linked securities, he is one of the company's top executives, he has yet to meet the entire management team in person. The company cobbled together a staff in a series of remote video chats. It's domiciled in Bermuda, but there's no headquarters there yet and he conducted a recent video interview from Massachusetts.

"We've done it all just like you and I are doing," he said. "So that's been interesting."

Vantage and fellow newcomer Conduit Re opened shop in 2020, arguably the weirdest and most uncertain year in a long time. As reinsurers, they are betting freedom from the past will make them less exposed to low interest rates and that capacity is growing at the same time the demand for their product is growing. Both are domiciled in Bermuda.

The new firm has people scattered over Bermuda, Chicago and New Jersey, McKeown said. At some point, there will be a return to normal life with offices and such but for now the company is OK with how it's leveraged the tools at its disposal. Vantage Group's rated entity, Vantage Risk Ltd., has a current Best's Financial Strength Rating of A- (Excellent).

"We have people sort of all around and we may not have been able to hire them if we said we're here in this spot and you need to look to move," McKeown said. "We're going to look to take advantage of that going forward."

"We have people all around and we may not have been able to hire them if we said we're here in this spot and you need to look to move. We're going to look to take advantage of that going forward."

Christopher McKeown
Chief Executive - Reinsurance, ILS, Innovation
Vantage Group Holdings Ltd.

Inside Highlights:

5 Athene, Apollo to Merge in $11 Billion Deal

7 AM Best: Life/Annuity Markets Could Rebound in 2021

9 AM Best: Health Insurers Brace for 2021; Lower Earnings Expected Due to Demand

11 Argo EVP: Automation Can Speed Complex Commercial Underwriting

13 Hippo President: $5 Billion SPAC Deal Will Expand, Deepen Homeowners Presence

14 Hiscox Posts 2020 Loss Of $293.1 Million on COVID-19 Claims

16 Prudential Plc 2020 Profit Nearly Triples to $2.2 Billion

Regulatory News, 22-25:

22 Insurance Industry Continues COVID Slide, Loses 2,900 Jobs in February

23 New Hampshire Court Nixes Regulation on LTC Premium Caps

Asia-Pacific News, 25-26:

25 Fintech WeLab Plans Asia-Pacific Expansion Following $75 Million Infusion

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London Market and Bermuda – Capital Raised, 2020-21, and AM Best Ratings of the Main Operating Entities of Capital-Raising Groups

AMB#	Company	Amount Raised	Equity/ Debt	Date of Issue	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
58459	Arch Capital Group Ltd.*	USD 1bn	Debt	Jun-20	aa-	A+	Affirmed	Stable	4-Dec-20
44770	Ark Insurance Holdings*	USD 605m	Equity	Jan-21	a	A	Assigned	Stable	4-Jan-21
46638	Ascot Group Ltd.*	USD 400m	Debt	Dec-20	a	A	Affirmed	Positive[1]	4-Sep-20
46515	Beazley plc*	GBP 247m	Equity	May-20	a	A	Affirmed	Stable	25-Jun-20
44835	Conduit Holdings*	USD 1.1bn	Equity	Dec-20	a-	A-	Assigned	Stable	7-Dec-20
44173	Convex Group Ltd.*	USD 1bn	Equity	Nov-20	a-	A-	Affirmed	Stable	1-May-20
		USD 500m	Equity	Jan-21					
44864	Core Specialty Insurance*	GBP 670m	Equity	Dec-20	a-	A-	Affirmed[2]	Stable	23-Dec-20
58455	Everest Re Group*	USD 1bn	Debt	Oct-20	aa-	A+	Affirmed	Stable	29-May-20
33824	Fidelis Insurance Holdings Ltd.*	USD 500m	Equity	Jun-20	a	A	Upgraded	Stable	3-Jun-20
		USD 300m	Debt	Jun-20					
		USD 125m	Debt	Nov-20					
		USD 60m	Equity	Dec-20					
54148	Helios Underwriting plc	GBP 20m	Equity	Oct-20					
51951	Hiscox Ltd.*	GBP 375m	Equity	May-20	a+	A	Affirmed	Stable	4-Dec-20
-	Inigo Ltd.	USD 800m	Equity	Nov-20					
51279	Lancashire Holdings Ltd.*	USD 365m	Equity	Jun-20	a+	A	Affirmed	Stable	22-Sep-20
		USD 0.75m	Equity	Dec-20					
33495	Randall & Quilter Investment Holdings Ltd.*	USD 100m	Equity	Apr-20	a-	A	Affirmed	Stable	15-Oct-20
		USD 108m	Debt	Dec-20					
86357	Renaissance Reinsurance Ltd.	USD 1.1bn	Equity	Jun-20	aa-	A+	Affirmed	Stable	13-May-20
44839	Vantage Group Holdings Ltd.*	USD 1bn	Equity	Nov-20	a-	A-	Assigned	Stable	19-Nov-20

Note: AM Best's ICR and FSR ratings do not apply to raised capital or equity.
* Rating applies to the main operating entities of the group.
1 FSR outlook is Stable.
2 ICR and FSR removed from under review
Source:

The conceptualization of Vantage started pre-COVID-19 and was based on the idea that balance sheets were simply becoming too cumbersome, bureaucratic and laden with business written in a low interest-rate world to face the opportunities of the foreseeable future, he said.

"Then COVID happened, so there were COVID losses channeling through the system and then other losses happened — wildfires, a derecho and hurricanes," he said. "That just really crystallized the moment even further that capacity would be constrained and somebody with new capital, but experienced management and a new product hopefully built on technology, would be welcome in the marketplace."

Old Guard Disruptors

While Conduit and Vantage may be new names, neither is purely looking to disrupt the industry with a new model. Rather, they can be thought of as identifying opportunities within the market and also how a new entrant into the market can marry the old and the new in a way that addresses shortcomings. This comes at a time when older companies are juggling the need for growth against older technology and financial underpinnings.

In both cases, the companies were started by industry veterans with decades of experience, who are betting a thick Rolodex and years of building relationships will help them transition and grow. Conduit, for instance, plans to write $492 million in business in 2021 and expects that to grow to $900 million in five years.

For Vantage, that means being led by CEO Greg Hendrick and Chairman Dinos Iordanou. Hendrick has spent three decades in the industry and is the former CEO of Axa XL. Iordanou, who notched a standout 40-year career in insurance and is the retired president and CEO of Arch Capital Group Ltd., is Vantage's nonexecutive chairman. Along with McKeown, the leadership team includes Jack Kuhn, CEO, insurance; Aurora Swithenbank, chief financial officer; Peter Hahn, chief data and analytics officer; and Gail McGiffin, chief information and operations officer.

Vantage Risk provides property catastrophe reinsurance, mainly covering North America, Europe, Japan and Australia, as well as specialty reinsurance across property/casualty classes including marine, energy, aviation, crop, workers' compensation, property per-risk and mortgage. Private equity firms Carlyle Group and Hellman & Friedman, along with management, have invested $1 billion in Vantage with the possibility of additional funding.

"What we saw in 2020 is despite the fact that the market is well-capitalized, capacity hasn't changed very much."

Carlos Wong-Fupuy
Senior Director
AM Best

For Conduit Re, founders Neil Eckert, executive chairman, whose career began in 1980, and Trevor Carvey, the CEO, each brings more than three decades of experience to the table. Eckert founded Brit Insurance in 1995 and remained its CEO until 2005, after which he was a nonexecutive director of the company until 2008.

In December, Conduit raised £826 million ($1.10 billion) in an initial offering on the London Stock Exchange and the company booked about $160 million in gross written premium during the January renewal season. Conduit Re has a current Best's Financial Strength Rating of A- (Excellent).

Clean Slate

Eckert said he and Carvey began discussing the possibility of starting Conduit Re after seeing a market that was softening from 2006 onward. From 2015 to 2018-19, the market started to harden as the world saw several of the worst consecutive catastrophe loss years in history. Also, he said there were more than $300 billion in catastrophe losses against a reinsurance market capitalization of about $600 billion.

The market is under-reserved and there's a casualty hole of between $100 billion and $200 billion, Eckert said. He pointed to results companies put out earlier this year as proof many companies need to increase their general reserves and those for COVID-19.

"That means basically that there's loss fatigue setting in and they were the conditions that enabled us to go to the stock market and say right now was the right time to start with a clean slate and get the company up and running," he said. "If we were a new entrant to a soft market, we wouldn't have the business we've seen."

"If we were a new entrant to a soft market, we wouldn't have the business we've seen."

Neil Eckert
Executive Chairman
Conduit Re

Conduit people often use the clean slate description. Carvey said older carriers faced both a drain on balance sheets and the inability to tailor older technology to exactly what they want and need to do in the future.

"We are starting from scratch with a clean slate. That's the important point. The

This Month In

Insurers Cozy Up To Remote Work and Reduced Spaces

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

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

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

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

It also decided to accelerate a plan to close satellite offices and permanently transition to a hybrid operating model.

others are encumbered by legacy, back-year drag," Carvey said. "Obviously, we're not suffering from the under-pricing and poor reserving that's gone on, particularly in the casualty market, for the better part of the last 10 years."

Tristan McDonald, head of strategy and London CEO, pointed to recent winter storms in the United States that left 38 of the 48 contiguous states with snow cover simultaneously during the winter as evidence of the impact of climate change on the industry. "That's a record since record-keeping began," McDonald said. "Add to that the devastating impact of snow and ice on poorly prepared Texas and you've got a meaningful event."

But Conduit Re isn't simply hanging out its sign and looking for customers to come calling. Eckert said the level of experience and track record of the management team filters out to all levels. The firm will be aggressive in seeking out business and relationships forged before now will be key.

Most of the high-profile startups have come from the world of insurtechs, technology-focused startups such as Lemonade and Root. In some cases, the founders come from outside the world of insurance.

"Reinsurance brokers like trading with people they know; they like people who will give them an efficient response and they like to be operating with people who are close to the decision-makers," he said. "It's really important and certainly from the show of business we've had, it's worked."

Flood of Capital

In a recent Best's Special Report, "London and Bermuda Attract Capital as Insurance Market Conditions Improve," AM Best found 2020 saw a slew of capital raising activity from both existing insurance players and startups looking to bolster balance sheets and to take advantage of perceived improvements in pricing and conditions.

The report found at least 16 new and existing insurers in London and Bermuda raised capital in 2020. In recent years, the emergence of collateralized reinsurance vehicles, referred to as sidecars, along with growth in insurance-linked securities, has given third-party capital an efficient way to move in and out of the market, dampening expectations of a swathe of new formations like the bumper classes of 2002 and 2005.

The money came from a mix of private equity, industry capital and public placements, but the common theme was investors looking to protect balance sheets and diversify amid the uncertainty caused by COVID-19.

Bermuda and London market insurers have been able to raise equity with relative ease, the report found. They have also found the debt markets receptive: in spite of higher credit spreads they've been able to issue debt at relatively favorable rates. That suggests investors are confident the insurance industry is a solid bet in the near-term despite claims of uncertainty around COVID-19, social inflation and catastrophe exposure.

Going into 2021, there was considerable optimism in respect of pricing, particularly in commercial lines and reinsurance, AM Best said. Rates in a number of lines of business continue to harden as the market responds with increased underwriting discipline to adverse claims experience driven by social inflation in the United States, COVID-19-related losses and, in recent years, elevated catastrophe experience.

"There was an expectation that the market was going to start hardening and that already started last year, led mainly by the primary segment and specialty lines," said Carlos Wong-Fupuy, senior director, AM Best, and one of the report's authors. "COVID has simply exacerbated that because the uncertainty we've had about the impacts that the pandemic was going to have on cat losses adds to pricing uncertainty."

At the same time, the appetite on the part of investors has grown in a search for yield while they've also become increasingly selective about where they choose to put their money, Wong-Fupuy said. In fact, he said AM Best and Guy Carpenter jointly estimate capacity for the market is around $485 billion, which includes almost $90 billion of third-party capital.

"What we saw in 2020 is despite the fact that the market is well-capitalized, capacity hasn't changed very much," he said.

COVID-19 and the initial market reaction in late March and April of last year, coupled with falling interest rates took a toll on insurers across lines, said Colin Devine, operating partner, Health Catalyst Capital. Looking at new firms, whether reinsurers like Conduit and Vantage, or insurtech start-ups, there are two solidarities as he sees it: they don't have legacy technology and don't carry the financial burden of the past legacy liabilities.

For the industry, the conditions of recent years made reinsurance, business spin-offs or sales to private equity more attractive to primary carriers by allowing them to divest blocks and lines that otherwise aren't running at profits they'd like to see. In some cases, the capital cost of maintaining them can be halved because they can operate at much lower RBC ratios, he said.

"The catalyst for that has been low rates and trying to get things off your books," he said. "The decline in rates also exposes expense inefficiencies because they're running these old legacy IT systems. So you've got to find another solution to try to keep yourself making money. In steps reinsurance, spin-off or private equity transactions."

McKeown, of Vantage, has an expression he likes to use — flatter, faster and fiercer. Coupled with a sense of identity, that is what will distinguish the firm from older and larger competitors, he said.

"That will give us an advantage and we will not have expense being driven by legacy issues whether it's legacy reserves, legacy technology, or legacy lines of business," he said. "We will choose very selectively the lines we want to get into and we won't try to be all things to all people."

(By Terrence Dopp, senior associate editor, Best's Review: Terry.Dopp@ambest.com)

Athene, Apollo to Merge in $11 Billion Deal

HAMILTON, Bermuda - Apollo Global Management and Athene Holding Ltd. will merge in an all-stock transaction that implies a total equity value of about $11 billion for Athene.

Jim Belardi

Athene's chief executive officer said the companies agreed to the combination after reviewing options.

Under the terms of the transaction, each outstanding Class A common share of Athene will be exchanged for a fixed ratio of 1.149 shares of Apollo common stock. On closing, current Apollo shareholders will own 76% of the combined company on a fully diluted basis, and Athene shareholders will own about 24%, the companies said in a joint statement.

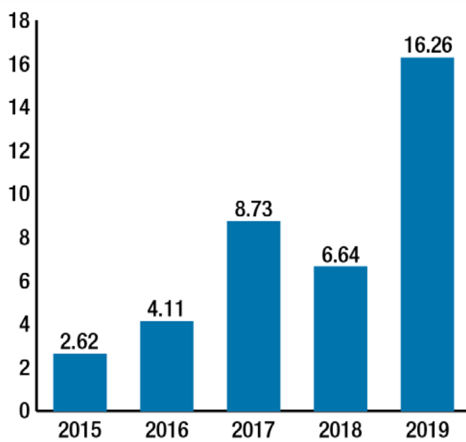
The transaction, expected to close in January 2022, needs shareholder approval for both Apollo and Athene and regulatory approvals.

The "strategic transaction" positions both Athene and Apollo for accelerated growth, James R. Belardi, Athene CEO, said in a conference call. Retirement services provider Athene and Apollo have had a strategic relationship since Athene was formed in 2009, and the combination gives Athene stronger backing from an

asset manager, he said. Belardi said after reviewing Athene's options, Athene and Apollo decided a "fully aligned" and simplified business combination works best. The two companies in the past have executed inorganic transactions, invested together in new companies and new origination platforms and "supplied capital to an industry that's been going through significant long-term restructuring," he said.

Despite record growth and underwriting to near-record returns as a retirement services platform amid the COVID-19 pandemic, Belardi said "it is clear and rather unfortunate that Athene has seen diminishing recognition from public equity markets."

Through the combination Apollo is acquiring the 70% of Athene it doesn't already own, said Apollo's co-founder and incoming CEO Marc Rowan in the call. He said Athene represents about 40% of Apollo's assets under management.



Rowan said the merger combines two growth companies that provide strong investment returns and retirement income. With the combination the aims of the two companies will be aligned, he said.

The transaction is substantially accretive, strengthening earnings power of the combined company to more than double Apollo's reported earnings in 2020, the joint statement said. Apollo will proceed with conversion to a simplified structure with a single class of voting stock and equal voting rights for each share. It establishes permanency of Athene's assets under management to Apollo and organic integration of Apollo's value-add services to Athene.

The combined company will be led by Rowan. The benefits of the merger will be derived from increased coordination and alignment rather than consolidation. The combined company expects to grow its workforce commensurate with growth of the business.

Apollo's business will continue to be led by co-presidents Scott Kleinman and James Zelter. There will be no change to the platform, day-to-day portfolio management or investment processes and approvals, the companies said.

Athene will continue to be led by Belardi with his current management team and full work force. There will be no change to Athene's platform, investment processes or approvals.

The board of directors of the combined company will be a diverse, 18-member board that is two-thirds independent. Four directors of Athene are expected to join the combined company board, including Belardi, the companies said.

A special committee of certain disinterested members of the Athene Board of Directors and the conflicts committee of the Apollo board of directors unanimously approved the merger. The Athene and Apollo boards also approved the merger.

Apollo is a global investment manager with assets under management of $455 billion as of Dec. 31, 2020, in credit, private equity and real assets funds. Athene, through its subsidiaries, is a retirement services company with total assets of $202.8 billion as of Dec. 31, 2020, and operations in the United States, Bermuda and Canada.

Despite the economic upheaval caused by the pandemic, Athene's fourth-quarter net income available to shareholders more than doubled, driven mostly by a strong net organic growth, Belardi said earlier (*BestWire, Feb. 17, 2021*). Net income attributable to Athene shareholders rose to $1.09 billion in the fourth quarter from $451 million. Net income for the year dropped 29% to $1.54 billion.

(By David Pilla, news editor, BestWeek: David.Pilla@ambest.com)

AM Best: Life/Annuity Markets Could Rebound in 2021

OLDWICK, N.J. - Life/annuity writers could return to 2019 earnings levels if current market conditions continue, said AM Best Director Rosemarie Mirabella and Senior Director Tom Rosendale. U.S. life annuity industry navigated the pandemic well in 2020, but as the pandemic is still not behind us, the industry is not quite out of the woods yet, they said.

View the video version of this interview at: *http://www.ambest.com/v.asp?v=ambrpla321*

Following is an edited transcript of the interview.

Q: What are the areas of the industry most directly impacted by the pandemic?
Rosendale: There's a number of areas directly impacted, some indirectly impacted. I'll start maybe with the most direct, and that is, clearly, mortality has been elevated a bit for the industry, although not maybe as much as the general population. The insured population hasn't realized the same level of elevated mortality. It has been an impact on the industry, although manageable.

We've also seen some negative impacts balanced by some positive impacts on the morbidity side. Kind of net-net. That's been neutral. Then from the operational side, companies obviously had to move to remote environments, almost all of them did, in terms of their home offices and other operations. That was done relatively seamlessly with very few blips.

The bigger impact in terms of the remote environment has been on the face-to-face distribution channels, where we've seen an impact certainly early on, a fairly large impact on sales.

But as companies have adapted to that remote environment and helped to provide their face-to-face channels with some better technology tools in order to enable remote selling, we've seen a bit of a comeback in sales, although not to previous levels.

On the indirect side, I would say leading into the pandemic, interest rates took another drop just prior to the lockdown. That's added some pressure both on the asset side and the liability side of the balance sheet.

On top of that, we saw quite a bit of equity and bond market volatility early on. Bond spreads widened significantly in March and into April, and equity markets dropped significantly.

Thankfully, though, equity markets have recovered pretty significantly and actually improved relative to their starting point in March. Bond spreads have come in largely, and downgrades on bonds have been somewhat limited recently.

"In any given year, companies are always accessing the debt markets to either term out their maturities, or for capital to augment their strategic plans."

Rosemarie Mirabella
Director
AM Best

While we still have a negative outlook on the sector because the pandemic persists and we're not necessarily out of the woods in terms of the impact on either operations or the balance sheet, things are beginning to improve.

Q: An increase in debt issuance was apparent in 2020. Was that directly tied to the pandemic?
Mirabella: Part of the increase was due to company's scaling of liquidity during the early phase of the pandemic. We view that as very appropriate as part of their overall enterprise risk management program when there was a lot of unknowns at the time.

In any given year, companies are always accessing the debt markets to either term out their maturities, or for capital to augment their strategic plans. Part of it was and we do view that as a prudent reaction.

Q: Now, earnings were favorable through the third quarter of last year, although down from 2019. What are you expecting for 2021?
Rosendale: Basically a return to 2019 earnings levels. Of course, that looks at things from a fairly optimistic point of view and presumes that the trajectory that we're on in terms of improvements around the pandemic, the implementation of more vaccines, some recovery in the employment markets, continued stabilization in the financial markets, and a maintenance of the slight recovery we've seen in interest rates.

"A spike upwards or a spike downwards [in interest rates], is something that the industry wouldn't tolerate well from an earnings perspective.

Tom Rosendale
Senior Director
AM Best

If all those things pan out, we could see our way toward the earnings that were more tantamount to 2019 levels, which represented maybe a little bit north of a 10% return on surplus on a statutory basis. That's a possibility.

The threats there are, if we don't see a continuation of the current, improving trajectory around the pandemic, and we see more spikes in mortality, we see more financial market volatility, maybe some more realized losses resulting from impairments or defaults, all those things would contribute to earnings that look maybe more like 2020 or worse.

Q: Another trend that generated headlines last year is private equity-driven M&A. Do you see that continuing?
Mirabella: Yes, we do. The recent test of low-interest rates that we saw throughout 2020, where rates ticked down, is a big reason for the story. We see more asset managers entering the insurance space because they bring with them unique investment capabilities.

At the same time, the sector, the direct writers are seeking to reduce their interest rate risk. We do expect more transactions to occur.

Q: AM Best has a negative outlook on this sector. What will it take for that outlook to go back to stable?
Rosendale: The short answer to that is that we become less concerned about the things we're concerned about now. To get a little bit more specific, coming into the pandemic, companies were challenged on the top line, they were challenged by the interest rate environment, and of course, we've doubled down on those concerns around the interest rate environment.

Coming out of this, if we become more comfortable that the experience we've seen to date in terms of limited impairments on the asset side of the balance sheet, if that continues and we feel comfortable that that's going to be the case, and particularly, we had concerns around the commercial real estate market in certain sectors of the bond market.

If we feel as though the economic improvements continue, we continue to make progress and getting past this pandemic and returning to close to a normal environment, we could see our way back to a stable outlook.

What it would require is that interest rates behave themselves, they don't spike upwards or downwards, and that we do see a return to some level of growth on the top line because that was a challenge. Both interest rates and the top line were a challenge coming into this. We'd like to see some improvements there. Of course, interest rates have recovered a bit because they're better than they were immediately after the decline in January of 2020. What we'd like to see is a measured increase over time.

Anything different from that, a spike upwards or a spike downwards, is something that the industry

wouldn't tolerate well from an earnings perspective. We need the economy to behave pretty well for us to get back to a stable outlook.

(By John Weber, senior associate editor: AM Best TV: John.Weber@ambest.com)

AM Best: Health Insurers Brace for 2021; Lower Earnings Expected Due to Demand

OLDWICK, N.J. - U.S. health insurers' earnings are expected to decline due to pent up demand and lower rate increases, said Sally Rosen, senior director, and Doniella Pliss, director, AM Best.

Despite the pandemic, AM Best is maintaining its stable outlook for the U.S. health insurance industry. While companies, by and large, were able to navigate the challenges, many remain in 2021 with the potential for new ones to emerge, they said.

View the video version of this interview at: *http://www.ambest.com/v.asp?v=ambrphealth321*

Following is an edited transcript of the interview.

Q: After the year of global pandemic, what is the financial condition of health insurers as they enter 2021?

Rosen: Health insurers have seen strengthening in risk-adjusted capitalization the past few years, largely related to the favorable earnings trend that has persisted. In 2020, health insurers reported record earnings, largely driven by the deferral of routine care and elective procedures that occurred in the spring of 2020 as well as patients delaying care and treatment over concerns about exposure to the virus. As a result, risk-adjusted capital strengthened in 2020.

I would note, though, that AM Best believes that 2020 and 2021 need to be looked at together. The earnings are expected to decline in 2021, driven by lower rate increases for the year, given the favorable experience, cost of administering the vaccine, pent up demand, and the expectation for increased morbidity due to the delays in care.

"AM Best believes that 2020 and 2021 need to be looked at together. The earnings are expected to decline in 2021, driven by lower rate increases for the year, given the favorable experience."

Sally Rosen
Senior Director
AM Best

Q: Because the pandemic is ongoing, there's still plenty of uncertainty. What are the big questions for health insurers for this year?

Pliss: As to be expected, most big questions are COVID-related. The main uncertainty, of course, when do things return to normal with less-severe virus outbreaks, large share of population vaccinated, and possibly reaching herd immunity?

That leads to the next questions. When does that utilization accelerate? How much of pent-up demand for medical services will emerge? On the other hand, how much of missed treatment will never come back?

For example, missed well visits and diagnostic testing only done once in a certain period of time are not coming back, but the volume of elective surgeries may very well be elevated in 2021. Overall, insurers have budgeted for higher claims volume in 2021. However, there is another unknown. How much does the morbidity deteriorate due to all the deferral of care in 2020?

There is a good chance that the severity of claims will rise following a year of missed treatments and delayed diagnosis, especially for senior population. In addition, there is a potential of additional new cost from so-called long COVID, long-term complications from the virus, including both medical and mental health.

All these questions are very much on the mind of the health insurers and the answers will emerge as 2021 progresses.

Q: Was there anything regarding results or trends in 2020 that diverged from your initial expectations once the pandemic took hold?
Rosen: Yes, there were several things. There was a widespread deferral of care that occurred in the spring for routine care and elective procedures as COVID cases were rising in both the Northeast and the West Coast and the hospital systems were getting overwhelmed, as well as the PPE was becoming hard to come by.

Additionally, individuals were reluctant to seek treatment over concerns about the exposure. Many of the people who have been diagnosed with COVID, a large percentage of them are diagnosed with COVID and are isolating at home with minimal treatment. Many of those who are hospitalized are treated with oxygen and only the most severe cases are being placed on a ventilator.

Commercial enrollment was expected to decline due to the economic impact from COVID and the shutdowns. However, that was much less than expected as many employees were furloughed with benefits due to some government initiatives like the Paycheck Protection Program as opposed to being laid off. All of this led to record-setting earnings for the year.

“The majority of potential regulatory actions currently under consideration are likely to be beneficial to the industry, especially for carriers providing major medical product.”

Doniella Pliss
Director
AM Best

Q: Is there anything on the regulatory or legislative front that you think may have a sizable impact on the industry?
Pliss: The majority of potential regulatory actions currently under consideration are likely to be beneficial to the industry, especially for carriers providing major medical product. The Biden administration has discussed providing more coverage and improved access to health insurance, including financial support.

We have already seen some actions via executive orders that were signed in January that will provide a special enrollment period for the federal health insurance exchanges in 2021. That can have positive impact on the enrollment.

The administration is considering withdrawing previously approved waivers for work requirements on the Medicaid program which were put in place by the Trump administration. If this is implemented, it can keep more individuals eligible for Medicaid and would bring more stability to Medicaid enrollment.

There has been discussion regarding increasing ACA subsidies and providing financial support to cover COBRA premium for individuals laid off during the pandemic, both of which would be favorable for the industry.

Another important point, more recently the Department of Justice notified the Supreme Court that it no longer considers the Affordable Care Act unconstitutional and is asking the Court to uphold the law. The court decision is expected sometime later in the year.

However, for some of the supplemental products, specifically ACA exempt plans such as short-term medical coverage, there is a potential of not so favorable regulatory developments. President Biden has direct Health and Human Services to review these plans. These plans are not subject to the Affordable Care Act, require medical underwriting, and do not provide full, comprehensive coverage.

It is possible that we will see some agency regulations limiting the scope of these plans, reversing the Trump administration actions. A number of carriers realized significant premium growth from that particular segment over the past several years. That can come under pressure.

Q: Should we expect any areas of growth for the industry?
Rosen: For the last few years we've seen growth in government programs. That's a trend we expect to continue. We have the aging of the population, so we're seeing more individuals eligible for Medicare, many of whom are electing Medicare Advantage and Medicare supplement plans.

Medicare Advantage, in particular, offers comprehensive benefits at favorable price points for many seniors. We've seen enrollment growth in Medicaid this years. I would note enrollment was declining in Medicaid in 2019 due to the stronger job market and unemployment rate. However, this reversed in 2020 due to COVID.

The other thing that is currently aiding Medicaid enrollment is the Families First Coronavirus Relief Act increased the federal payments to states during the period of the public health emergency. During that period, states cannot disenroll members. As a result, you're seeing growth without anyone leaving the program.

(By John Weber, senior associate editor, AM Best TV: John.Weber@ambest.com)

Argo EVP: Automation Can Speed Complex Commercial Underwriting

OLDWICK, N.J. - Rather than seeking complete automation, commercial lines can benefit from automating specific underwriting steps, said Gary Grose, executive vice president of Argo.

View the video version of this interview at: *http://www.ambest.com/v.asp?v=grose221*

Following is an edited transcript of the interview.

Q: How are insurers adapting to make their products available on automated platforms?
A: It always needs to start with a cost-benefit analysis by any good insurer because there's aspects of our business that have the opportunity to be automated. There are pieces that will always have an individual around them because of the nature, of their complexity.

You need to start by looking at the details behind the financials as to what could work, whether that's in your budget to do so, and the payout that is expected at the end.

Then, there are a lot of great tools out there now that can help in the automation process to make it easier for the brokers to interact with you and to do business with you if you're not willing to build them off the shelf. The options are out there now that weren't available to us many years ago both from an external vendor as well as build in house, which makes it much easier.

Q: Are you speaking about automated underwriting, or the actual, the broker, the sales part?
A: Yeah. I think that our focus at Argo, after going through the opportunities that we have, is about automating the process and how we interact with the clients. It's not necessarily the whole transaction soup to nuts always.

In many ways, sometimes, we actually look at a singular piece that can help not only speed up the process that gets to our underwriters to make their decisions faster, but also maybe the data entry for our clients, which, in turn, will get to the right underwriter or actually a quicker declination of our side, which our clients are always quick to point out.

Sometimes, a fast no is as good as a fast yes because it enables them to, especially in these markets, to go find a market that does have the ability. They don't want to spend a lot of time going down a rabbit hole, and that's a goal of ours with our good IT and ops team to make sure that we don't have our clients go down a long road and end up with a no.

AM Best TV

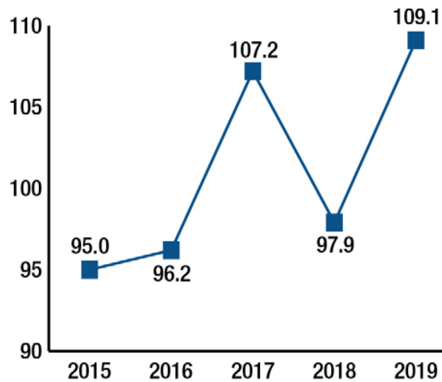
Novarica: Differentiate Between Insurtechs and Long Standing Insurance Software Providers
Established insurance software players often become the strategic acquirers for fast-growing, venture funded insurtechs, said Matt Josefowicz, president and CEO, Novarica (March 10, 2021).
http://www.ambest.com/v.asp?v=josefowicz221

Argo: Automation Can Speed Complex Commercial Business Underwriting
Rather than seeking complete automation, commercial lines can benefit from automating specific underwriting steps, said Gary Grose, executive vice president of Argo (March 9, 2021).
http://www.ambest.com/v.asp?v=grose221

AM Best: Lower Auto Claims Offset Higher Cat Losses For P/C Industry in 2020
Fewer miles driven in 2020 helped the property/casualty industry offset higher catastrophe losses, said Michelle Baurkot and Jennifer Marshall, directors, AM Best (Feb. 22, 2021).
http://www.ambest.com/v.asp?v=ambrppc321

Quincy Mutual CEO: Insurance Is Still a 'People Business'
While technology continues to evolve, to be successful in insurance you still need to be able to interact with people, said Douglas Briggs, chairman and CEO, Quincy Mutual Group, (March 3, 2021).
http://www.ambest.com/v.asp?v=briggs321

APCIA Chief: Congress Lacks Compromise 'Muscle Memory' on Insurance Policy
The most recent bipartisan insurance policy to pass in Congress was the Terrorism Risk and Insurance Act after 9/11, said David Sampson, chief executive officer, APCIA, (March 4, 2021).
http://www.ambest.com/v.asp?v=sampson321



Q: Does the automation mean you'd replace agents and brokers, or even underwriters?
A: We don't look at it like that. We look at it as speed is a pivotal part of being a good insurer.

Certainly, we've been able to utilize automation to automate pieces of the transaction, and we can then take the underwriters and move them over to the harder to place risk.

Automation will replace a lot of things, but it'll never replace those towers that are incredibly complicated or a mid-level business or midsize business that has risk or issues that are just really tough to place.

We want our folks spending time on that and then automating the pieces that they don't have to, so that we can put them where their time is needed more.

I think that's where a lot of companies miss the automation opportunity. They look for soup to nuts. There's so many solutions that can be had when you look at singular parts of the transaction that can be resolved through automation.

Q: Can you give us an example of the kinds of lines that might be involved?
A: I think that there are certainly obvious ones. The binding business is one smaller lines that are heavy on a transaction submissions and things like that, so garage binding.

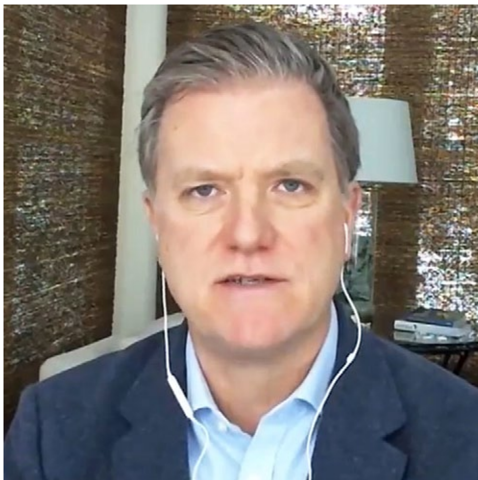
It's funny when you reach in like we have with our ops and IT team.

We see aspects of the financial lines that we can automate and make easier and process so that certain things are clicked off or checked off the box before they get to the underwriters in-box.

The underwriter has the detail necessary to speed up the transaction, which only helps the client in their discussions with the insurance as well.

Nobody goes out and sits in the shop and says, "I want to spend a month on my insurance placement." They want it done very quickly. Sometimes, we lose track of that as an industry. I think that's where automation in lives like that.

As I mentioned in the beginning, the smaller transaction lines make sense, but we shouldn't be looking past the opportunities inside certain parts of the transaction and bigger lines as well. That's what we do.



"Sometimes, a fast no is as good as a fast yes because it enables [clients] to go find a market that does have the ability. They don't want to spend a lot of time going down a rabbit hole."

Gary Grose
Executive Vice President
Argo

Q: Are you feeling pressure from insurtechs to become more automated?
A: I think that the insurtechs have made great inroads in personal lines, which were necessary.

It seems like they're making inroads every day, which is a real improvement in my mind because there are customers that want to deal still with agents on the personal line side. Then, there's clearly people that want to just get the process done as quickly as possible.

We don't feel the pressure from insurtechs, but the pressure we feel is the continuation to be easier to do business with, how can we be easier to do business with, so we can help the client. We think of automation that way.

We're going to be working with brokers for a long time out here because, as I said

earlier, commercial risk can be very complicated, but are there pieces of that transaction that we can automate so that both of our lives are improved?

(By Meg Green, senior associate editor, AM Best Meg.Green@ambest.com)

Hippo President: $5 Billion SPAC Deal Will Expand, Deepen Homeowners Presence

PALO ALTO, Calif. - Hippo Enterprises Inc. is going public in a $5 billion special purchase acquisition company merger deal. It plans to expand and deepen its presence in homeowners lines, aiming for $2.3 billion of written premium in 2025, executives said during a conference call.

The company said it expects to hold about $1.2 billion cash at closing with Reinvent Technology Partners Z, which it would use to accelerate growth. Post-closing, Hippo anticipated existing stockholders will own approximately 87% of the pro forma combined company.

Hippo will focus on home products and services instead of broadening lines, according to Hippo President Rick McCathron. In addition to geographic expansion, it would add products such as home warranty, flood and homeowners association, he said, noting the company can sell automobile, umbrella and other products through an insurance agency operation.

The company anticipates total written premium will increase 43% through 2025, to $2.3 billion, or about 2% of the industry, according to Hippo Chief Financial Officer Stewart Ellis. Hippo is expanding rapidly, adding 12 states last year and anticipating eight more this year, for a total of 40.

The company is a managing general agency and carrier, which distributes direct and through its agents and other carriers, retaining 10% of risk with plans to expand that share to 25% in the long term, said Ellis.

Mitsui Sumitomo Insurance Co. Ltd. recently invested $350 million in Hippo to fund expansion (*BestWire, Nov. 25, 2020*).

Rick McCathron

As part of that deal, Hippo is transitioning from annual quota share agreements to a “more stable” multi-year reinsurance agreements with Mitsui, Ellis said.

The company also partners with companies in related industries such as home-building and mortgage services. If anticipates future earnings from home monitoring and maintenance services, Ellis said.

Chief Executive Officer and Co-founder Assaf Wand said Hippo will gain share because legacy carriers offer coverage “stuck in the 1950s,” covering items such as fur coats, stamp collections and silverware, while excluding others such as electronics valued higher than $2,000 or camping equipment.

Wand, who said his father has been an insurance agent for 45 years, recalled helping deliver calendars to customers. “At that time, it was cutting edge, delivering ongoing value to a customer.”

Hippo does that now with easier application and binding processes — by pre-loading verifiable third-party data — offering electronic monitoring services to help reduce claims, remotely monitoring properties for home improvements that call for policy changes — like swimming pool additions or roof replacements — and partnerships for home repair services, said Wand.

Hippo continues to refine underwriting and will reduce operating and loss ratios as it expands and gains scale and efficiencies, said Ellis.

He noted outsize catastrophes losses across the industry last year, as well a change in homeowners staying, working and learning from home during the COVID-19 pandemic. “We’re all spending a lot more time than normal in our homes, which were not designed or built to be used this intensely,” said Ellis.

Assaf Wand

As a result, Hippo incurred higher frequency of usage-related claims, he said, in addition to higher material costs on COVID-related disruptions in the supply chain and higher repair labor costs.

Hippo said the $1.2 billion of cash at closing would include up to $230 million of cash held in Reinvent’s trust account from its initial public offering on November. The transaction is further supported by a $550 million private investment in public equity at $10 per share that was led by current investors, mutual funds and Reinvent Capital.

Reinvent and Hippo have agreed to a long-term lock-up on founder shares for up to two years, and a robust earnout structure with full vesting not realized until the share price reaches $20 per share.

Major stockholders and key executives of Hippo have agreed to enter into separate lockup agreements as well.

Morgan Stanley & Co. LLC and Goldman Sachs & Co. LLC are acting as co-financial advisers to Hippo and Latham & Watkins LLP is acting as legal counsel.

Hippo’s property/casualty subsidiary Spinnaker Insurance Co. currently has a Best’s Financial Strength Rating of A- (Excellent).

AM Best on March 5 commented the company’s ratings remain unchanged. AM Best plans additional discussions with company management over the near term to discuss further details regarding the transaction as they become available and will provide further commentary as deemed appropriate.

(By Renée Kiriluk-Hill, associate editor, BestWeek: Renee.Kiriluk-Hill@ambest.com)

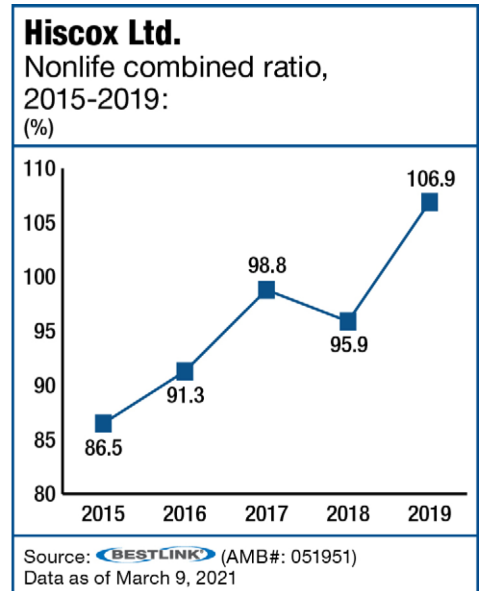
Hiscox Posts 2020 Loss Of $293.1 Million on COVID-19 Claims

HAMILTON, Bermuda - Hiscox Ltd. posted a 2020 net loss attributable to the group’s owners of $293.1 million on COVID-19-related losses in its retail segment. This compared with net income of $48.9 million a year earlier.

Hiscox reserved $475 million in COVID claims across all lines for 2020, Chief Executive Officer Bronek Masojada said in a statement. The bulk of the COVID-19-related losses came in Hiscox Retail, which managed to grow its revenue worldwide despite “economic havoc,” said Masojada. He said the retail segment comprises more than half of the group’s premiums.

Hiscox Retail had a 2020 loss of $237.6 million with a material impact from COVID-19, he said. Excluding that impact, the segment would have had a profit of $162 million, said Masojada. Group gross written premiums were flat at $4.03 billion. The combined ratio rose to 114.5 from 106.8.

Event cancellation and abandonment accounted for the largest amount of COVID-19 losses, said Masojada. He said Hiscox "proactively" sold communicable disease cover, and many of these claims have been paid.



Hiscox has made strategic changes related to the retail segment that will drive losses of up to $100 million in the United States, which he said will be partially offset by continued strong growth in digital direct and partnerships business. The combined effect of these changes, Masojada said, will result in a one-time reduction of around $200 million in retail premiums.

Masojada said the outlook for retail is good as Hiscox is beginning to see positive rate momentum. "We anticipate that 2021 retail gross premiums will grow at the low end of our medium-term target range of 5%-15% on a like-for-like basis after allowing for $200 million reduction in premiums," he said.

The second-largest share of COVID-19 claims is for U.K. commercial property business interruption, he said.

"Unsatisfactorily for both our policyholders and ourselves, there was disagreement over whether the Hiscox policy wordings responded to the steps taken by the U.K. government to manage COVID-19," said Masojada. He said the underwriting intention of these policies is to respond to local events affecting a firm's premises, not to nationwide steps taken to manage the pandemic.

"When a claims decision is challenged, it is the wording which determines the coverage in law, and there was room to question whether the Hiscox wording reflected this underwriting intent," said Masojada. "We, of course, regret the impact of this disagreement on affected policyholders, and the adverse publicity we received as a result of it has been difficult for all of our stakeholders."

The Financial Conduct Authority noted similar disagreements across the United Kingdom as it brought an expedited industry test case to court on behalf of policyholders, Masojada said. The FCA sought to bring clarity to about 370,000 disputed policies with more than 50 insurers (*BestWire, Jan. 15, 2021*).

"After the High Court decision in September, all parties involved had the option to appeal some or all of the judgment to a higher court. Although Hiscox was ready to implement the High Court judgment, once others appealed, we felt we had no option but to appeal and participate in the Supreme Court hearing," said Masojada.

He said the Supreme Court in January "largely confirmed" the outcome of the High Court's ruling in respect of Hiscox that, except in rare circumstances, cover is restricted to Hiscox policyholders who were ordered closed. About one third of Hiscox's 34,000 U.K. business interruption policies may respond as a result, he said. The Supreme Court judgment represents the final outcome of the industry test case, and there can be no further appeals.

Masojada said Hiscox's exposure to potential business interruption claims arising from further U.K. government restrictions has been running off at about 8% per month from June 2020, with residual exposure to be largely run off by the end of June 2021. Following the Supreme Court judgment, he said the group estimates exposure to restrictions already announced in 2021 to be less than $40 million if restrictions extend to the end of June.

Masojada said the most important lesson from the court case is the need for clarity in wordings, to ensure intent is properly reflected in the policy detail.

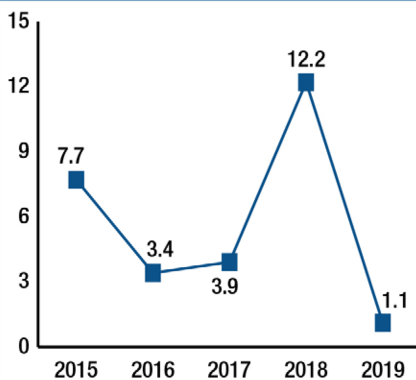
"In addition, the customization of policies has to be restricted to ensure that there is not a long tail of wordings serving very small numbers of customers," he said. "In 2021, we have commenced a series of initiatives aimed at addressing these issues."

While noting Hiscox has suffered damage to its brand, Masojada said net customer numbers in the United Kingdom remained stable in 2020.

(By David Pilla, news editor, BestWeek: David.Pilla@ambest.com)

Prudential Plc 2020 Profit Nearly Triples to $2.2 Billion

LONDON - Prudential plc 2020 net profits nearly tripled to $2.19 billion, partly driven by a substantial increase in adjusted operating profit in its fast-growing Asia life and asset management operations, said Mark FitzPatrick, Prudential's chief financial officer and chief operating officer.



The increase "reflects the combination of a 13% increase in adjusted operating profit from our Asia life and asset management operations," he said, "offset by a 9% decrease in adjusted operating profit from our U.S. business, including asset management, and lower central expenses."

Total revenue for the year, net of reinsurance, fell 40.28% to $55.97 billion; gross premium earned ticked downward 5.6% to $42.52 billion.

Chief Executive Officer Mike Wells warned the results must be viewed through a prism that contemplates last year's economic upheaval.

"The macro environment for these results need to be seen in the context of extreme volatility in equities, foreign exchange and bond markets, geopolitical uncertainty, and the operational impacts of COVID-19," Wells said during an earnings call to discuss 2020 results. "That said, they are very strong results. We continue to focus on high-quality health and protection business.

"Our insurance margin or underwriting profit grew by 19% to $2.6 billion in 2020," Wells said. "As COVID-related restrictions were lifted, we have seen a strong recovery in APE (annual premium equivalent) sales from a low in the second quarter."

Nine markets and all product lines saw strong sequential APE growth in both the third quarter and fourth quarter, he said.

"Eight of our businesses now produce over $200 million in earnings, and we are seeing increasingly material contributions from markets that not long ago were considered too small to mention separately," he said.

Wells said he still expected the separation of its U.S. financial services unit Jackson Financial Inc. through a demerger to be completed in the second quarter. "The most important near-term objective is the separation of Jackson. And the demerger is on track for completion in the second quarter of 2021," Wells said.

Last month, the company said Jackson expects to list on the New York Stock Exchange using the ticker

"JXN." Steven A. Kandarian, MetLife Inc.'s former CEO, will be nonexecutive chairman of Jackson, Prudential said at the time (*BestWire, Jan. 28, 2021*).

Overall, Prudential expects good results with it new focus on Asia, Wells he said.

"We are making great progress in deepening our presence in China with our life operations," Wells said. "This is the single biggest opportunity in front of us where we are able to reach close to 80% of the population with 83% of the GDP of China with our regulatory footprint.

"We are growing faster than the market in the majority of our 99 cities and 229 sales outlets. The bank channel did exceptionally well during the COVID lock-down and our agency new business profit was very strong at 85%. Our life assets reached close to $22 billion demonstrating the scale of this business," Wells said.

(By Frank Klimko, Washington correspondent, BestWeek: Frank.Klimko@ambest.com)

Mike Wells

AmWINS to Acquire Commercial Lines Broker Worldwide Facilities

CHARLOTTE, N.C. - AmWINS Group Inc. agreed to acquire wholesale broker Worldwide Facilities in a move AmWINS said will broaden its specialty capabilities and expand its presence on the West Coast.

Worldwide Facilities is the fourth-largest wholesale broker in the United States, AmWINS said in a statement.

Terms of the transaction, expected to close in April, were not disclosed.

"The acquisition of Worldwide is a watershed moment not just for AmWINS, but the specialty distribution space," said Scott M. Purviance, chief executive officer, AmWINS, in a statement. "Worldwide has a very similar culture to AmWINS and has a significant employee ownership base. The combined firm will have over 1,025 employee shareholders owning 43% of the business."

The organizations complement each other from a culture and business philosophy perspective, said Davis Moore, CEO, Worldwide, in a statement. "Together, we can use our scale to continue to invest in people, technology, product and tools to deliver specialized solutions to our retail clients."

AmWINS said the transaction will reinforce its position as the industry's largest and most diversified specialty distribution firm. Worldwide clients will gain access to a broader range of markets, products and tools, AmWINS said.

The Worldwide team, led by Davis, will join AmWINS' leadership team, AmWINS said.

With the acquisition, the combined firm will have more than 6,151 employees in over 155 offices across the United States, placing over $24 billion in premium yearly, AmWINS said.

Worldwide Facilities is a national wholesale insurance broker, managing general agent and program underwriter, AmWINS said. Its brokers and underwriters work in a range of specialty lines and have contacts with carriers in the United States and overseas.

"Worldwide has a very similar culture to AmWINS and has a significant employee ownership base. The combined firm will have over 1,025 employee shareholders owning 43% of the business."

Scott M. Purviance
Chief Executive Officer
AmWINS

In January, AmWINS rebranded subsidiary Networked Insurance Agents to AmWINS Access - Admitted Placement Services (*BestWire, Jan. 4, 2021*). Access is a nationwide binding platform for small property/casualty business in three segments: excess and surplus small commercial, personal lines and admitted placement services.

AmWINS Group Inc. is No. 14 in *Best's Review*'s annual ranking of the top 20 insurance brokers, with 2019 total revenue of $1.30 billion.

(By David Pilla, news editor, BestWeek: David.Pilla@ambest.com)

Risk Placement Services President: Pandemic Creates E&S Opportunities

OLDWICK, N.J. - The COVID-19 pandemic brought new growth opportunities for excess & surplus writers, said Wes Robinson, national property practice president, Risk Placement Services.

View the video version of this interview at: *http://www.ambest.com/v.asp?v=robinson221*

Following is an edited transcript of the interview.

Q: RPS' 2021 U.S. Market Outlook says the commercial property market is firming. The segment was already challenged before the pandemic hit, so what did COVID-19 add?
A: It added a few things. I'd say first and foremost, it added uncertainty. Typically, when you have uncertainty, you have a very conservative underwriting. That led to price increases that were already going to happen.

"We found ourselves trying to get a hold of underwriters who had children that they had to homeschool, infants that they now had to take care of, because all the day cares are closed."

Wes Robinson
National Property Practice President
Risk Placement Services

We were already expecting a firming market. That was inevitable due to all the losses that have been piling up and the rate decreases that have been happening for several years in a row. We already knew we were going to have a difficult year.

When COVID-19 hit mid-March, the insurance industry did not know exactly what was going to come to them, nor did any other industry segment in the United States or the world. With that level of uncertainty, we found ourselves trying to get a hold of underwriters who had children that they had to home-school, infants that they now had to take care of, because all the day cares are closed.

You had the financial markets a little bit up in turmoil, which affects insurance companies' balance sheets. You had the unknown about what COVID-19 was going to be to the insurance industry. Are they going to have to pay billions and billions of dollars of BI claims?

I'd say most of the insurance industry would stand firm that the answer's, "No. In our form, there's no direct physical damage, and if that doesn't do it, the virus exclusion that we put on there should do it." That's played itself out a little bit throughout the past, call it eight, nine months to varying solutions.

Some courts have upheld that the insurance industry is not responsible. Some have held that they are responsible, and there's still thousands of cases that have been waiting to be heard that is to come. Depending on who you ask, they're going to be in favor of the policyholder or the insurance industry.

When you have that level of uncertainty, if you're an insurance company, having

a hard time navigating what you're familiar with. Hurricane season was yet upon us. They didn't know what that was to expect. What we ended up seeing is a lot of capacity was withdrawn, the rates were going up, terms and conditions were changing.

To that end, you ended up with terms in the policy that have been given away over the past several years, decade even. Civil authority claims, ingress/egress claims. I'd say business interruption-type claims, non-physical damage-type coverages that were very closely scrutinized.

Depending on the industry or the asset class, that was even worse. The hospitality industry is a good example of that. They were in bad shape, because nobody was traveling. Nobody was staying at their properties. How do they pay the premium dollars that were required by the insurance industry at that time?

The insurance industry didn't know how many claims they were going to pay on that industry. You ended up with a very frictional — I'd say it's probably the best word for it — frictional year on transacting all of these coverages.

I'd say without fail, if you had five carriers on your program, you now have 10. If you had one, you have six. It was a lot of activity. Policy count is for sure way up.

Q: The market for industrial and processing has also tightened and you're seeing a strong shift to excess and surplus carriers in that area.
A: There's a few carriers out there whose product line was large-limit, industrial, large-account focus. One or more of these carriers started exiting this class of business and started shedding hundreds and hundreds of millions of limits on this asset class.

When that happened, I don't think there was enough standard market carriers that were willing to come in and take over those risks nationally. It's a huge industry segment.

Most of my career, this industry segment has been very firmly in the standard market. The carriers that have always insured these are good at it. They have loss control departments. They have risk engineering. They have underwriters with maybe industrial backgrounds that know that business, know the risk, can get their arms around it, and properly underwrite it.

The issue is when these carriers, these standard lines carriers started de-risking them, they needed a home. There was nowhere for them to go, so a lot of it was thrust into the E&S world. The first time in a lot of these companies' histories, they had to go navigate the E&S industry for coverage.

Q: What's happening with Tornado Alley?
A: Tornado Alley, which begins north of Austin, Dallas area, to all the way to West Texas, and then goes vertically north up through the Dakotas, so basically the Great Plains. The past couple of years, I'd say

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

Market Segment Report: **P&I Clubs in 2021 - Navigating Their Way in a Hardening Market**
AM Best expects P&I clubs to return another combined underwriting loss.

Market Segment Report: **COVID-19 and the Russian Insurance Market: Negative Implications for Premium Growth, but Opportunities for Innovation**
AM Best believes that a post-pandemic push towards innovation is likely to lead to some Russian insurers reviewing their business models, and in the long-term, will have positive implications for the development of the industry.

Market Segment Report: **Market Segment Outlook: US Title Industry**
Our outlook is going to Stable from Negative, following the segment's exceptional performance in 2020.

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.

maybe dating back to 2018, there's evidence that Tornado Alley is widening. A lot of meteorologists are now including Arkansas, Mississippi, Alabama, and then the western part of Tennessee.

This is backed up by pure evidence of tornadoes and hail claims that have come in these states.

What that's done is the carriers that have typically treated Tennessee, and Mississippi, and Alabama like a normal Southeastern state, non-catastrophe, they've been surprised with some of the losses that they've been paying, both in hail and tornado. Most famously, this one back in March in 2020 in Tennessee.

It produced some pretty large, high-profile losses on some large accounts. A lot of the carriers, both E&S and standard markets, they've paid these losses. This opened their eyes up to where maybe they thought they were safe at a certain attachment point.

They're discovering that they're not. That's the shift east. That phenomena has been happening for years, dating back all over '15, 2016, 2017 in Texas.

Q: Another risk that we might not think of is with COVID-19. School buses, when they're not running, tend to be parked together in one location. You get a hailstorm and you've got a lot of losses.
A: That is certainly part of the exposure that the industry is looking at a little bit more closely. It's called the yard cat coverage. There are standard markets that like that business. They like public entity business, they like school business. They may still entertain that, depending on where it is, but they won't do the vehicles any longer.

They won't do the equipment schedules, they won't do the buses. That's created an opportunity in the E&S world to take that exposure and carve that out and place that completely separate. The standard market may still do what they're good at, large limits, low rates, low deductibles, profitable business.

The potentially catastrophic unprofitable business, the hail, exposure on a yard of school buses, that can be pushed to the E&S industry.

Q: What can you tell me about technical pricing?
A: There is more consistency independently on how these insurance companies come up with what they feel is an appropriate premium charge for the exposure given.

I say that because there used to be pretty good disparate amount if you had a layered and shared deal and you sent it out and you ended up with 7, 8, 10 responses back. You may get wildly different answers on each one of them, depending on the layer. A lot of that had to do with how much deviation was allowed relative to the technical price.

The technical price is generated differently for every carrier, but almost all of it goes back to modeling. I'll tie this to the severe convective storm issue in the Midwest and Tennessee in just a minute. Every insurance company uses modeling, whether it be for fire, or severe convective storm, flood, earthquake, wind.

That model hits everyone's books pretty similarly. Everyone has a different make-up of aggregation in their books. You're not going to end up with the same number every time, but you're seeing a lot more consistency in the premiums generated by these carriers. That's via Lloyd's and all the domestic markets, Bermuda.

It's all coming to a point where the disparity isn't nearly as great. I think a lot of that is because they're migrating to the technical price generated by these models. Not to say the model's doing all the work, because everyone has a base fire rate. They have the things that they need to do as an underwriter to come up with the appropriate premium charge.

You just don't see the deviation that you used to, and I think that's what's driving a lot of this back to "technical price." Again, how long that's going to last, I don't know. We live in a very competitive environment. That's the beauty of what we do is, who can figure out how to do it better, cheaper, faster, with more accuracy? That race is on and it's a never-ending race, so here we are.

(By Renée Kiriluk-Hill, associate editor, BestWeek: Renee.Kiriluk-Hill@ambest.com)

Accelerant Holdings Acquires Commonwealth Insurance of America

LONDON - Accelerant Holdings said it has acquired Commonwealth Insurance Co. of America from Fairfax Financial subsidiary Brit Group.

The deal, which comes on the heels of the formation of Accelerant Specialty Insurance Co., allows Accelerant to write nonadmitted and admitted coverage. Commonwealth brings licenses in 48 states and the District of Columbia and will be renamed Accelerant National Insurance Co.

Jeff Radke

"Adding an admitted platform to our offerings will enable us to write a broader array of program business in the U.S. market," Accelerant Chief Executive Officer Jeff Radke said in a statement.

Joe Zuk, Accelerant Specialty president and operating partner at Altamont Capital, Accelerant's private equity sponsor, said in a statement the business focuses on the smaller commercial program administrator market.

Accelerant Holdings, an underwriting group specializing in serving a managed network of member managing general agencies, recently announced its plans to write excess and surplus lines business in the United States (*BestWire, Dec. 22, 2020*).

Brit suffered an after-tax loss of $232.2 million in 2020 on COVID-19-related losses, as the company noted significant uncertainty for the industry as the pandemic continues, the severity and frequency of medium-loss events rises along with the frequency of major events and social inflation pressures the U.S. casualty market.

(By Renée Kiriluk-Hill, associate editor, BestWeek: Renee.Kiriluk-Hill@ambest.com)

Legal & General Full-Year Profit Falls 12% As COVID Gross Protection Claims Grow

LONDON - Buffeted by the COVID-19 pandemic, Legal & General Group plc's full-year 2020 profit after tax was down 12% to £1.61 billion ($2.24 billion), largely reflecting lower interest rates on investments and the unrealized impact of market movements, the company said.

The losses were partially offset by gains from the disposal of L&G's Mature Savings business, the company said in a statement. Full-year results were impacted by £228 million in specific COVID-19 estimated impacts.

"COVID-19 is having an unprecedented impact on our customers, people and society at large," the company said in a statement. "During 2020, we paid £1.9 billion in gross protection claims and provided financial stability through regular payments to over 1 million pensioners."

Nigel Wilson, group chief executive officer, said the business delivered a “robust and resilient” performance.

“Our balance sheet remains strong,” Wilson said, “with the Solvency II coverage ratio currently over 190%, and trading remains consistent with delivering our growth ambitions, which are supported by six long-term growth drivers.”

Last year, the company used £100 million in proceeds from its pension risk transfer operations to provide long-term debt financing to its affordable housing business as a step of the insurer’s plans to use more of the income stream to back development (*BestWire, Feb. 18, 2020*).

(By Frank Klimko, Washington correspondent, BestWeek: Frank.Klimko@ambest.com)

THIS WEEK IN INSURANCE REGULATION

Insurance Industry Continues COVID Slide, Loses 2,900 Jobs in February

WASHINGTON - As the pandemic continues to stymie the U.S. economy, the insurance industry lost 2,900 jobs in February, extending a downward trend that started at the beginning of the year, the U.S. Bureau of Labor Statistics said. The unemployment rate ticked downward to 6.2%.
For the insurance industry, jobs shrank by 0.10% over January’s numbers.

The U.S. economy remains in the grasp of the pandemic, marked by the feeble job growth, said Cecilia Rouse, chair of the White House Council of Economic Advisers.

“While February’s job growth surprised substantially to the upside, its pace of job growth will not get workers back to work quickly given the magnitude of the employment loss,” Rouse said, “there are roughly 9.5 million fewer jobs now than in February 2020, before the pandemic took hold in the U.S.”

The February numbers reinforce the 9,300 jobs lost in January. The current slide is a sharp change from December when the industry gained 4,900 jobs (*BestWire, Feb. 5, 2021*).

The insurance industry employment numbers showed growth year to date, with a 0.48% increase of jobs to 2.87 million jobs, compared with 2.85 million in February 2020, according to the report.

Total nonfarm payroll employment rose by 379,000 in February. The unemployment rate is down from its recent high in April and the number of unemployed persons decreased to 10 million. Although both measures are much lower than their April 2020 highs, they remain well above their pre-pandemic levels in February 2020 (3.5% and 5.7 million, respectively), the BLS said.

For the insurance industry, total payrolls are reported each month on a seasonally adjusted basis, along with the current month’s nonfarm payrolls. Separately, data by industry segment — broken out by various insurance carrier and noncarrier categories — are available only on an unadjusted basis for the prior month.

Three of eight job sectors showed increases in January 2021 over December 2020, the data showed. They are reinsurance carriers (up 1.14% with a total of 28,500 jobs); direct title insurance and other direct insurance carriers (up 0.55% with 92,800 jobs); and third-party administration of insurance funds (up 0.51% with 207,500 jobs).

Five of eight job sectors showed decreases in January, led by claims adjusting (down 1.44% with 51,800 jobs); direct health and medical insurance carriers (down 0.61% with 579,500 jobs); direct life

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insurance carriers (down 0.44% with 349,200 jobs); insurance agencies and brokerages (down 0.32% with 847,200 jobs); and direct property/casualty insurers (down 0.13% with 557,500 jobs).

The next federal jobs report is scheduled to be released April 2.

(By Frank Klimko, Washington correspondent, BestWeek: Frank.Klimko@ambest.com)

New Hampshire Court Nixes Regulation On Long-Term Care Premium Caps

CONCORD, N.H. - New Hampshire's Supreme Court has struck down the process the state has used to limit premium increases on long-term care insurance policies.

The high court's ruling reverses the trial court's judgment that upheld the regulations in a civil suit between Genworth Life Insurance Co. and the New Hampshire Insurance Department. The high court's decision sends the matter back to the trial court. "Rate caps like those struck down by the N.H. Supreme Court undermine the vibrancy and viability of the long-term care insurance marketplace, and we are pleased that the N.H. Supreme Court agreed with our position," a Genworth spokesperson said in an email.

The department said it would not comment on the ruling because the legal case is ongoing. However, Commissioner Christopher Nicolopoulos did say in an email the department "has and will continue to review the ruling to understand its implications and determine if any interim actions are necessary on long-term care insurance rates."

In its ruling, the Supreme Court said the insurance commissioner exceeded his authority to impose caps "because they are not reasonable rules that either promote premium adequacy or protect policyholders in the event of substantial rate increases," it said.

According to the ruling, the department in 2014 proposed regulatory changes that would allow insurers to increase rates once every three years, subject to the commissioner's approval. Under the amended regulations, older policyholders would be limited to smaller premium rate increases and younger policyholders would pay higher rate increases.

The regulatory changes became official in 2015 and a year later, Genworth sued, arguing the new regulations exceeded the commissioner's statutory authority, it said. That authority requires the commissioner to issue reasonable rules to promote premium adequacy, protect policyholders in the event of substantial rate increases and establish minimum standards for marketing practices, agent compensation, agent testing, penalties and reporting practices, the ruling said.

Additionally, Genworth argued the amended regulations violated the contract and takings clauses of the New Hampshire and U.S. Constitutions.

In its ruling, the Supreme Court said the ability to cap rate increase requests does not support adequate premiums because insurers that issued LTCI policies based on the previous regulations, believing they could increase rates as necessary to maintain premium adequacy, were now more restricted in their ability to do so.

The court also said it was unconvinced the appeal process, which gave the commissioner authority to grant an increase greater than the cap limit, met the first test that the department support adequate rates.

In addition, the regulations say the caps would protect policyholders "in the event of" large premium increases. But because the caps would apply before the increase could be established, the justices ruled it incompatible with the department's mission to support adequate rates.

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Two subsidiaries of Genworth Financial Inc. sold 214.3 million shares in Genworth Mortgage Insurance Australia Ltd. to pay about $247 million owed under a promissory note to Axa. Following the payment, the net proceeds available to Genworth will be about $123 million, it said (*BestWire, March 3, 2021*).

(By Timothy Darragh, associate editor, BestWeek: Timothy.Darragh@ambest.com)

NCOIL Committee Adopts Amendments To Model Law on Proxy Discrimination

OLDWICK, N.J. - The National Council of Insurance Legislators' Special Committee on Race in Insurance Underwriting adopted amendments to a model law designed to help lawmakers more precisely craft bills that prevent proxy discrimination in insurance.

During a special online meeting, the group voted 7-3 to approve the language, which NCOIL President Matt Lehman said provides a "path forward" to defining a term that has proved divisive in its own right.

Matt Lehman

According to Lehman, the definition of proxy discrimination has to include a key element: volition.

"It's vital to recognize that there is an intentional act associated with it," he said.

Proxy discrimination, the amendments said, "means the intentional substitution of a neutral factor for a factor based on race, color, creed, national origin, or sexual orientation for the purpose of discriminating against a consumer to prevent that consumer from obtaining insurance or obtaining a preferred or more advantageous rate due to that consumer's race, color, creed, national origin, or sexual orientation."

Lehman said the definition should not touch on disparate impact discrimination, which he said is a different issue. Disparate impact discrimination claims involve apparently neutral policies that have the effect of discriminating against a class of people, even though they may not be intentional.

"Equating the two would contort the use of proxy so as to render it inconsistent with its plain meaning," said New York state Sen. Neil Breslin, who co-authored the amendment with Lehman.

The committee has a second charge to look at rating factors, which the committee will undertake later, Lehman said.

Property/casualty trade associations also supported the amendments.

Erin Collins, vice president of State Affairs, National Association of Mutual Insurance Companies, said the definition of proxy discrimination must focus on intentional acts.

"If we divorce this from the concept of intentionality and use disparate impact as an underwriting standard as some are asking you all to do, then insurance companies will be, I think, universally pulled into bad faith litigation on every single factor that they use," Collins said.

But New York Assemblyman Kevin Cahill said proxy discrimination could indeed involve unintentional acts, especially as insurers increasingly use artificial intelligence in underwriting.

And Louisiana state Rep. Edmond Jordan said the committee, which had one other meeting on the

topic, needed to spend more time on it. The amendment's authors, he said, "spent a whole lot of time on proxy, and not a whole lot of time on discrimination."

The proposed revisions reflect "a profound misunderstanding" of how systemic racism impacts insurance, added Birny Birnbaum of the Center for Economic Justice. It is "fundamentally incorrect" to say proxy discrimination must involve intent, he said.

Such a view relieves insurers of any responsibility to test their practices for systemic bias, Birnbaum said.

A debate among NCOIL members last summer turned into a dispute over whether the organization was using "states rights" arguments about regulation to preserve a status quo that discriminates against communities of color (*BestWire, July 2, 2020*).

(By Timothy Darragh, associate editor, BestWeek: Timothy.Darragh@ambest.com)

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THIS WEEK IN ASIA-PACIFIC

Fintech WeLab Plans Asia-Pacific Expansion Following $75 Million Infusion

HONG KONG - Allianz X led a $75 million Series C fundraise for fintech WeLab. The companies are also partnering to expand wealth management services to new digital customers in Asia, WeLab said in a statement.

WeLab Bank could develop and distribute services with AllianzGI, a global asset manager under Allianz with assets under management exceeding €582 billion ($693.2 billion).

Nazim Cetin

WeLab said it will expand geographically and bring its technology into new markets with Allianz. It plans to hire about 100 people this year.

Allianz (China) Insurance Holdings Co. Ltd. recently said it received approval from the China Banking and Insurance Regulatory Commission to prepare for an insurance asset management entity (*BestWire, Jan. 28, 2021*).

WeLab has built a "powerful platform for digital financial services and achieved excellent access to retail and business customers in Asia, a region of strategic importance for Allianz," Allianz X Chief Executive Officer Nazim Cetin said in a statement.

He said the WeLab investment is promising economically and strategically.

With the second-highest bank deposits per capital in the world, Hong Kong is a "very attractive wealth management market," said Desmond Ng, Asia-Pacific head of Allianz Global Investors.

WeLab operates online financial services, largely in Hong Kong, Mainland China and Indonesia. It has raised more than $600 million since its founding 2013 and said it has nearly 50 million individual users and more than 600 commercial customers.

(By Renée Kiriluk-Hill, associate editor, BestWeek: Renee.Kiriluk-Hill@ambest.com)

New Zealand Court Sets Claims Deadline in 2019 Gas Explosion

CHRISTCHURCH, New Zealand - A High Court of New Zealand judge has granted a request by QBE Insurance (Australia) Ltd., setting a deadline for claims to be submitted in a 2019 gas explosion that damaged several buildings and properties in Christchurch.

High Court Associate Judge Dale Lester rendered the decision in a case brought by QBE against Gas Unlimited Ltd., whose owner has admitted to causing the accident.

"QBE brings this application to set a deadline for the bringing of claims by those affected and to seek a direction that the insurance monies be distributed pro rata amongst those who have lodged claims for compensation," Lester said, "once the claims have been reviewed and accepted."

Because estimated claims will far exceed the available cover, QBE sought direction from the court, the judge said. Prospective claimants will have 25 days to file a claim after QBE places public notices in the local newspapers, the judge said. Once the application period closes, QBE will begin distributing funds on a pro rata basis to those with verified claims, he said.

"There is the potential for uninsured losses to be sought, which will not yet have been subject to any critical assessment," Lester said.

Last year, the Greater Christchurch Claims Resolution Service said it settled 1,000 insurance claims from the 2010-11 earthquakes (*BestWire, March 11, 2020*).

(By Frank Klimko, Washington correspondent, BestWeek: Frank.Klimko@ambest.com)

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