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AM BEST'S MONTHLY INSURANCE MAGAZINE

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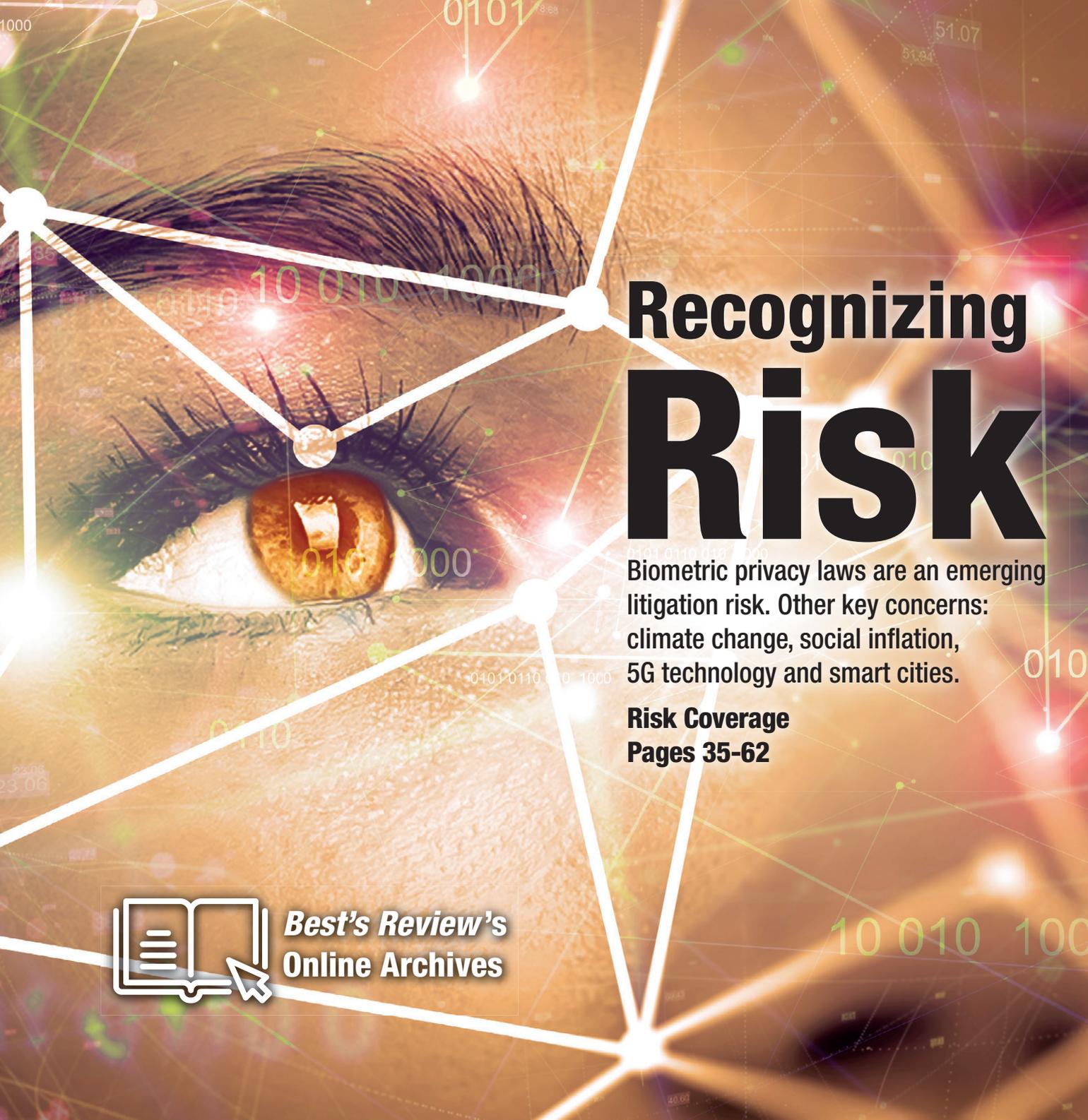
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BEST'S REVIEW®

April 2020 • Volume 121 • Issue 4

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Recognizing Risk

Biometric privacy laws are an emerging litigation risk. Other key concerns: climate change, social inflation, 5G technology and smart cities.

Risk Coverage
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Human vs. Ostrich

April's issue focuses on risks, ranging from litigation to regulation, pandemics and smart cities. Also, a look at pension risk transfer deals.

In their book *The Ostrich Paradox*, Howard Kunreuther and Robert Meyer talk about disaster psychology and offer a look at what we can do to build resilience and create a safer world.

Kunreuther and Meyer, co-directors of the Wharton Risk Management and Decision Processes Center, say ostriches get a bad rap for sticking their heads in the sand when in danger. It turns out, however, that they are actually quite good at dealing with risk.

It's humans who really do a poor job of preparing for disasters.

The book came to mind in early March as the debate intensified over how to respond to the coronavirus.

April is Risk Awareness Month, and our April issue has traditionally focused on risk and risk management.

For risk managers, a pandemic has been on the radar for some time now—but this virus has put corporate pandemic plans to the test.

What we know is that we do poorly when preparing for low-probability, high-consequence events, such as severe natural disasters, Kunreuther said in an interview with *Best's Review* in 2017.

He and Meyer identified six biases that lead individuals, communities and institutions to make grave errors that can cost lives. These include myopia, amnesia, inertia, simplification, herding and optimism. Myopia means the long-term consequences of events are missed. Amnesia is the tendency to quickly forget things that happened in the past.

Inertia is when we keep doing what we've been doing, simplification is when we do not look at all of the information when making decisions, and herding is when we look to others for guidance on decision-making.

Optimism is when we underestimate risk probabilities, leading us to ignore worst-case scenarios and think bad things only happen to others.

The challenge for risk managers is to play it right—to prepare for the worst, develop contingency plans and build resilience, so that their organizations are prepared for the next crisis, be it a storm, an earthquake or a pandemic.

Because as risk professionals can tell you, sometimes disasters do strike.

In this issue, we examine other critical risks impacting the insurance industry.

"Without Consent" looks at the emerging risk of class action lawsuits over the collection and use of biometric information. Those class actions are just one piece of a much broader problem the industry is facing when it comes to litigation.

In "Legal Maneuvers," *Best's Review* takes a look at the evolving legal climate and how decades of underpricing in many commercial lines has left the industry ill-prepared to handle the growing exposures tied to social inflation and rising jury awards.

Insurers also are focused on meeting the demands of regulators. In "A Renewed Focus," *Best's Review* looks at climate change and industry efforts to manage the risk and improve sustainability.

In the life sector, insurers have been announcing big pension risk transfer deals. *Best's Review* examines what's behind this trend.

Best's Review also this month introduces a listing of recent AM Best research with the Best's Analysis page.

Patricia Vowinkel
Executive Editor
patricia.vowinkel@ambest.com

The Question:

What are the best books you've read about the insurance industry and its leaders?

Email your answer to bestreviewcomment@ambest.com.

Reader responses will be published in a future issue.



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RISK

In this special section, *Best's Review* takes a magnifying glass to emerging risks.

Pages 35-62

Without Consent

A deluge of class action lawsuits involving the use and collection of biometric information is creating new concerns for insurers, including the potential for costly claims settlements and a new swath of directors and officers claims.

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Legal Maneuvers

Casualty insurers try to catch up to a shifting litigation landscape.

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A Renewed Focus

Insurance sustainability measures to concentrate on investment, partners and companies.

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RISK (CONTINUED)

Need for Speed

5G could engineer losses out of insurance, but the technology doesn't come without risks.

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Living 'on' the Grid

As urban areas are being transformed into smart cities, insurers must be aware of the emerging risks that follow.

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Pandemic Viewpoints

Industry experts talk to ^{AM}BestTV about how COVID-19 is impacting the insurance market.

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LIFE INSURANCE

Panning for Gold

As life insurers search for ways to boost business, pension risk transfers may be just the gems they are looking for.

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Nonprofits and Risk Analytics

Experts discuss the challenges facing nonprofits and how insurers can creatively use data and analytics to assess risks.

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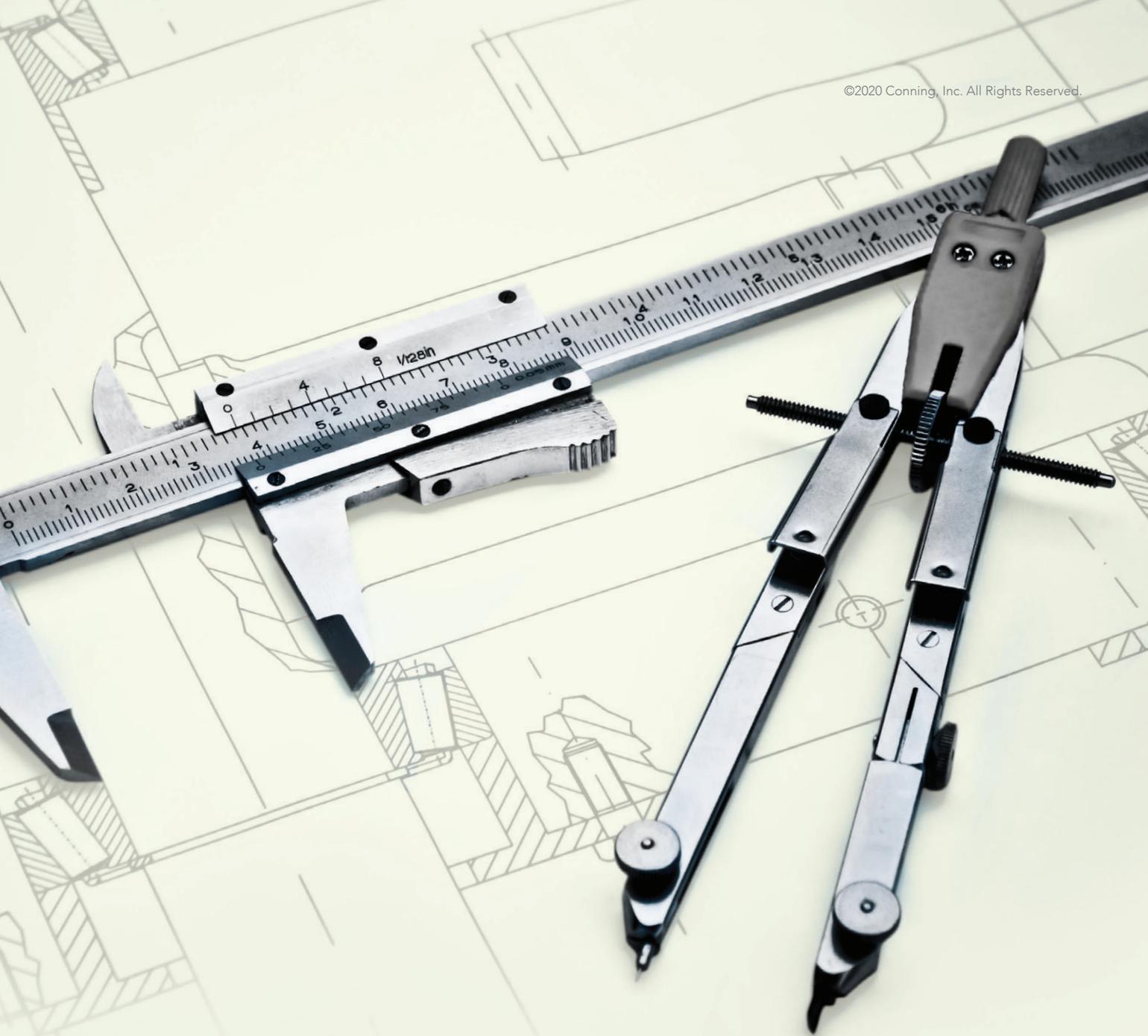
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Coronavirus Creates Scheduling Chaos as Insurance Industry Cancels Events or Moves Them Online

April 1: Insurance Coverage and Claims Institute, Defense Research Institute, Chicago. ✓

April 1-3: The Future of Risk, The Institutes Risk & Insurance Knowledge Group, Chicago. ✓ 🗣️ ⭐

April 6-7: ALU Chief Underwriter Forum, Academy of Life Underwriting, Rosemont, Ill.

April 6-8: SIR Spring Research Workshops Summit, Society of Insurance Research, San Antonio.

April 6-8: IRMI Energy & Risk Insurance Conference, International Risk Management Institute, Houston.

April 7-8: PAMIC Claims Summit, Pennsylvania Association of Mutual Insurance Companies, Gettysburg, Pa.

April 8: Innovation Underwriters: Leadership Roundtable, Cambridge, Mass. 🗣️

April 14: Philly I-Day, Insurance Society of Philadelphia, Philadelphia. ✓ 📺

April 15-16: Health Plan Marketing & Consumer Innovation Summit, World Congress, New Orleans.

April 20-22: Life Insurance Conference, jointly hosted by LIMRA, LOMA, SOA & ACLI, Salt Lake City. ✓

April 21: Insurance Market Briefing – France, AM Best, Paris. ✓ 🗣️ 🏠

April 21-23: Global Insurance Symposium, Global Insurance Symposium, Des Moines, Iowa. ✓

April 22: Agents Council for Technology Meeting, Independent Insurance Agents & Brokers of America, Orlando, Fla.

April 22-24: Retirement Industry Conference, LIMRA, Salt Lake City. ✓

April 22-25: ABA Annual Spring Conference, American Bar Association, New Orleans.

April 23: Buffalo I-Day, Insurance Club of Buffalo, Buffalo, N.Y. 📺

April 23-24: NASP Spring Conference, National Association of Subrogation Professionals, Nashville, Tenn.

April 26-28: APCA Human Resources Conference, American Property Casualty Insurance Association, Hilton Head Island, S.C.

April 27: IASA Mid-Atlantic Spring Chapter Meeting, Insurance Accounting & Systems Association, Philadelphia.

April 29-May 2: Tort Trial and Insurance Practice Section Conference, American Bar Association, Nashville, Tenn. ✓

April 30-May 2: CPCU Society Leadership Summit, The Institutes CPCU Society, Portland, Ore. ⭐

April 30-May 2: Accelerate Powered by NetVu Conference, Minneapolis. ✓

May 3-6: RIMS 2020, Risk and Insurance Management Society, Denver. ✓ 📺 🗣️ 📺

May 4-5: SOA Life and Annuity Symposium, Society of Actuaries, St. Louis. ✓

May 4-6: RMS Exceedance, Risk Management Solutions, Montréal. ✓ 📺

May 4-6: NAMIC Directors' Bootcamp 2.0, National Association of Mutual Insurance Companies, Clearwater, Fla.

May 4-6: Mid-Year Meeting, Target Markets Program Administrators Association, Tampa, Fla. ✓

All events subject to change. For a full list of conferences and cancellations, visit www.BestReview.com/calendar

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April is Risk Awareness Month

As the risk landscape rapidly evolves and the pace of change accelerates, insurance organizations find themselves operating in a new age of risk. *Best's Review* explores these new dynamics. Coverage begins on page 35.



Zurich North America Names Ben Harper Head of Corporate Sustainability

Also: Tennessee names new insurance director; Guardian CIO retires and successor named and Mutual of Omaha names CFO.

Zurich North America has named Ben Harper to the newly created role of head of corporate sustainability.

In his new role, Harper will be responsible for integrating Zurich's people and capabilities to create solutions that advance the company's sustainability priorities of workforce in transition, climate resilience and confidence in a digital society. He will work closely with Zurich's business units, functions, customers, government organizations, NGOs, industry groups and trading partners to influence, deliver, connect and prioritize the company's current sustainability activities, according to a company statement.

Harper has been with Zurich for 18 years and has more



Ben Harper

than 31 years of sustainability and insurance experience.

Most recently, he served as the global environmental subject matter expert in technical underwriting and as head of the pollution team responsible for providing technical, policy, strategy and underwriting guidance in support of environmental coverages. He has been active in Zurich's climate, environmental, social and governance initiatives through product development, actuarial modeling, green investment advising and

internal evaluations. Harper served as part of Zurich Group's Climate Office from 2009 to 2013.

Harper will be based in Schaumburg, Illinois.

—Barbara Edwards

Tennessee Insurance Division Names Director

Bill Huddleston, most recently the Tennessee Insurance Division's director of receiverships, has been named director of the division.

Huddleston has served in the department since 2014 and has previous experience in banking and public accounting, according to a statement from the division. He received a Governor's Excellence in Service Award in 2017, the insurance division said.

The division is one of eight under the Tennessee Department of Commerce and Insurance, which is headed by Hodgen Mainda.



Bill Huddleston

Safety National COO to Retire After 44 Years in Insurance Industry

Safety National Casualty Corp. has named John Csik to succeed Steve Luebbert as chief operating officer.

Csik, currently executive vice president and chief financial officer, will transition to his newly expanded role on April 1. Luebbert, who will retire after a 44-year career in the industry, has served in an executive management role with Safety National for more than 13 years and has been instrumental in the company's growth and success over that period, according to a company statement.

Safety National has also announced Cyndee



John Csik

Morton, senior vice president of operations and chief information officer, will join the executive management team as executive vice president of operations and chief innovation officer.

Tom Grove, executive vice president and chief business development officer, will be adding executive management oversight of the claims department to his existing oversight of the business development, communications and risk services departments.

Successor Named as Guardian CIO Retires

Guardian Life Insurance Company of America has named Jean LaTorre to succeed Tom Sorell as executive vice president and chief investment officer.



Jean LaTorre

LaTorre will be responsible for Guardian's investment policy and strategy across public and private equity, fixed income and commercial real estate. She will report to Deanna Mulligan, chief executive officer. Sorrell will retire by the end of the year after 25 years with the company, 17 of which were as CIO.

LaTorre is joining the company after almost 30 years at Aetna, where she was most recently CIO and corporate economist overseeing the management of more than \$40 billion in diversified assets. Additionally, she led the pensions business, economic analysis and chaired Aetna Capital Management.

Penn Mutual Names Successor For Retiring CFO

Penn Mutual Life Insurance Co. has named Dave Raszeja to succeed Sue Deakins as senior vice president and chief financial officer.



Dave Raszeja

Raszeja, currently senior vice president, financial management and chief risk officer, transitioned into his new role on March 1. Deakins announced her retirement early last year.

As CFO, Raszeja will lead all areas of the financial

management department, including financial reporting, accounting, financial controls, actuarial valuation, financial analysis, risk management, financial operations and procurement and benefits and payroll, according to a company statement.

Raszeja joined Penn Mutual in July 2001 as an actuarial analyst. He has risen through the ranks and held various roles in the organization, most recently as SVP, financial management and chief risk officer.

MetLife Names Chief Auditor

MetLife Inc. has named Toby Srihiran Brown to succeed Karl Erhardt as executive vice president and chief auditor.



Toby Srihiran Brown

Erhardt will continue to oversee a data management initiative focused on improving the quality and consistency of data

capture to reduce risk and foster innovation.

As chief auditor, Brown will lead the team responsible for providing assurance over MetLife's risk management, control and governance processes across MetLife's global business operations.

Brown, since 2016, has been executive vice president and chief operating officer of MetLife Japan and has also served as a member of the MetLife Japan board of directors since 2012. He joined MetLife in 2010 and became regional chief financial officer of MetLife Asia in 2011. Before that, he worked at AIG/ALICO for more than a decade in Latin America, Europe and the Middle East. Brown started his career with Coopers & Lybrand, now PwC, in the United Kingdom.

Mutual of Omaha Names Chief Financial Officer

Mutual of Omaha has named Rick Hrabchak to the dual role of chief financial officer and chief investment officer.



Rick Hrabchak

Hrabchak joined the company in 2016 as CIO and last August, assumed the role of chief financial officer on an interim basis.

Acadia Insurance Names Former Insurance Commissioner as Chief Underwriting Officer

Acadia Insurance, a member of W.R. Berkley Corp., has named John Elias as senior vice president and chief underwriting officer.

Elias most recently served as the insurance commissioner of the State of New Hampshire, where he led improvements in overall efficiency, speed to market of new products, advancements in technology and use of data.

Prior to his regulatory role, Elias was vice president of underwriting for two regional property/casualty insurance carriers.



John Elias

Liberty Mutual Insurance Names President of GRS North America

Liberty Mutual Insurance has named Tracy Ryan as president of Global Risk Solutions North America.

In her new role, Ryan will oversee the company's North American commercial property, casualty, and specialty operations, including underwriting, distribution and claims, according to a company statement.

Ryan has held several leadership positions during her 25-year career at Liberty Mutual, most recently as executive vice president and chief claims officer for GRS. Prior to claims, she held leadership roles in actuarial, product, and client management in the United States and Europe, according to the company.



Tracy Ryan

BR



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Time to Think

Best's Review readers respond to a recent column about human trafficking and a profile story that inspires reflection.

Raising Awareness

I enjoyed your article (*Best's Review*, "Answer the Call," January 2020) on human trafficking. Thanks for raising awareness of this epidemic blight on our culture and society.

I would like to invite you to consider partnering with [Jeff Brodsky] who has been making a difference in this area. While much of his efforts have been overseas, he is training U.S. airport personnel to see the signs and respond to human trafficking.

This is the year to answer the call!

Tom Walker

Owner/Agent, American Family Insurance
Lakewood, Colo.

Author's response:

Thank you for your comments on the *Best's Review* article on human trafficking. As you pointed out, Dr. Jeff Brodsky and the Joy International organization are certainly leaders in educating and creating awareness for sex trafficking, specifically informing younger children and teens of the prevention of human trafficking. The issue is horrific and one that our society, and more so our insurance and risk management industry, should be and are addressing. Thank you for your support in the fight against human trafficking.

Lance J. Ewing

ARM, CRM, ERMP
Best's Review columnist

Time to Reflect

I was re-inspired by your piece (*Best's Review*, "Life Reshaped," January 2020) on Kevin Hogan. It's good to reflect from time to time why we undertook this enterprise to begin with.

Mike Robinson

Producer, Equis Financial
Dayton, Ohio

Change Agents

Westfield's Robyn Hahn discusses the role marketers play in meeting the evolving needs of their customers and working with business units across the organization.

by Lori Chordas

Evolving customer needs are driving big changes and disruption in the insurance market and opening the door for marketers to engage with customers in different ways.

"We need to be thinking about those changes five, 10, 15 years from now. That's our role as marketers, to help the business see around the corners and stay ahead of changing customer expectations," said Robyn Hahn, president of small business at Westfield. Hahn, the former chief marketing officer of the Ohio-based insurer, participated in a Feb. 28 webinar sponsored by AM Best and the Insurance Marketing and Communications Association.

Following in an edited transcript of the interview.

What do insurance marketers need to know and do to earn value and respect within their organizations?

Early on, I realized that I had a choice to allow myself to be relegated to being viewed as optional when it came to having a seat at the table, or figuring out how to be viewed as a trusted adviser and almost needed or required to be at the table in order for progress to be made. I chose to lead people there through self-discovery and did that through a focus on five key areas: Learn the business, let the business co-develop and be a part of your engagements, make real-time connections a priority, figure out the critical relationships and focus on emotional intelligence.

Westfield recently underwent a brand refresh. What was the rationale for taking



Robyn Hahn

the word "insurance" out of its name?

We did that to redefine who we needed to be and how to present ourselves in order to stay relevant with customer expectations.

Through our research, we determined that we needed to broaden the definition of risk and come at it from a customer's point of view. We do business with folks that take on more risk than just the nature of risk transfer and the casualty, property and liability spaces. We know that we're able to offer more.

It was a pretty big, bold move.

We made a statement with it to our employees, agents and customers, but it illustrates the kind of company that we want to be, which is being a relevant voice in our customers' conversations and a valuable part of their lives.

How can marketing successfully work with other business units and evolve small business at Westfield?

It starts with the competitive business strategy, and having marketing understand how we intend to compete and what the business outcomes are that we're trying to drive. We view business and brand strategy as two sides of the same coin. They inform and push on each other. They learn from each other. That's how you bring a business strategy to life because a brand, strategy, communications and materials are about how you express your strategy to the marketplace in a way that they understand. **BR**

AM BestTV



Go to bestreview.com to watch the interview with Robyn Hahn.

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

Water Works

There's a place for crying in the workplace, particularly in the insurance business.

By **Carly Burnham**

Recently, a friend of mine, who is an insurance agent, wrote on LinkedIn and in her newsletter about a topic that is often considered taboo—crying. And not just any kind of crying—crying at work.

She shared that she finds that “inspiration” for tears often occurs at work even if we hold off the tears, and she asked her LinkedIn connections for help in brainstorming the emotions or circumstances that might come up at work that could lead to tears.

Many of the responses focused on times that our personal lives can't be ignored even though we are at our desks. It is not surprising that as emotional beings, our personal lives may impact our work.

When I read her question, however, two opposing stories about crying at work came to mind, and I think they say something about the business of insurance. The business that we are in is people-driven and relational, and it is, in my opinion, one of the best and worst things about the business.

I'll share first the story that makes me most proud of our business, and I'll save the second story for next month.

A few years ago, I attended a lunch for risk management and insurance students.

The students had the opportunity to ask the professionals who were at their tables about their



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



experiences throughout their insurance careers.

At the table with me was a gentleman 10 to 15 years my senior, and he had spent his entire career in claims. At the time, he was a claims leader managing a team of adjusters, but he had started out as an adjuster himself. One of the students asked: “Sometimes you hear that claims departments are tasked with keeping expenses down. How do you know if that is the type of organization that you are interviewing at?” This question went directly to the heart of the reputation of our industry.

The claims leader responded with an answer I will never forget. “I think this is a common misconception of our industry,” he said. “I have worked in claims my entire career, and all of the claims professionals that I know are looking



to indemnify those who have experienced claims. Our purpose is to be there for families and individuals at some of the worst moments of their lives. The most obvious tell is how many times I have cried during or after a case, and almost every single one of my colleagues has cried in front of me during a claim. If you happen to work in a claims department where this is untrue, you should question the culture and values of your organization.”

This story connects so deeply for me because it is why I believe in my career, and how I find value in my work on tough days.

To hear a senior leader directly connect crying and emotional connection to your insureds or claimants as an indicator that the company you work for is treating people the

right way has stuck with me since that day almost five years ago.

Crying may be taboo in the workplace. But for an industry like insurance, which promises to help people during times of crisis, it also can be a sign of a healthy culture. So don't be afraid to show expression at the office. And don't be afraid to commend employees for displaying a connection to customers. In a relational business like ours, that's a behavior we all should model and strive for.

Next month, I'll circle back to the topic of crying at work by sharing a story that is also related to the reputation of our industry, but I'll be asking for each of us to consider how we can prevent future stories like this and explaining why I think it matters. **BR**

Empowering Agents

Data shows partnering with agents enables success

By **Bill Pieroni**

Our industry is focused on risk, yet averse to taking it. We like to quantify it, price it, transfer it, and manage it—anything but undertake it ourselves. This perspective creates a context where accumulated legacy is both our greatest strength and greatest weakness. The most significant risk for insurers in the 2020s will be that of falling behind just gradually enough that they can ignore it until it's too late. Failing to thoughtfully leverage the lessons of centuries of industry experience, while also adjusting to the new realities of a rapidly changing market, is a pitfall that insurers must avoid.

Role of the Agent

Discussions of strategy and tactics in insurance are often dominated by the concept of data and analytics—and rightfully so. However, most do not realize that, while leveraging data and analytics may be the basis of many cutting-edge technologies and techniques, it also has been the underpinning of the insurance industry from its earliest days.

An agent meeting with a client—whether in the year 1720, 1920 or 2020—is performing analytics and business intelligence. They are intuitively evaluating the risk and lifetime value that client represents, while simultaneously assessing their needs and how they want to be treated.

Agents truly excel at the moment of truth—when the customer files a claim, has a billing inquiry, or is wavering on renewal. One pervasive risk in our



industry is a lack of understanding by some carriers of the critical role that agents play in value creation for both policyholders and shareholders alike. How do we continue to support and enable them to perform in that moment of truth?

Quantitative Results

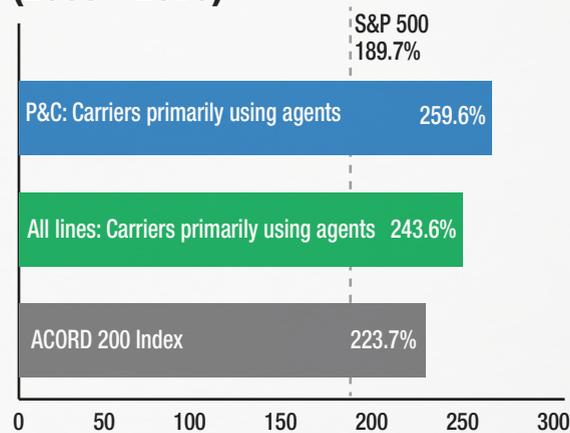
Is there quantitative evidence to support the value provided by agents? Emphatically, yes. ACORD has studied the characteristics of insurers worldwide over the past decades, and their correlation to financial performance. A common thread running through many of the results was the success enjoyed by organizations that leverage the expertise of agents. For example, our data shows the agent channel positively impacts total shareholder return.



Best's Review contributor **Bill Pieroni** is the president and CEO of ACORD. He can be reached at bestreviewcomment@ambest.com.



Total Shareholder Return (2009 - 2019)



Source: ACORD

Multiple studies have shown that carriers relying primarily on agents were more likely to achieve “intelligent growth”—that is, to outperform their peers worldwide in both value creation and growth of market share. Among U.S. property and casualty insurers, agency writers were also more likely to achieve “sustainable value creation”—profitability in both underwriting and investment activities.

Tellingly, in workers’ compensation and other commercial lines, agent commission was the only category of expenses where these winning carriers actually overspent the average. By leveraging the expertise of agents to forge relationships and manage clients, they were able to demonstrate lower total underwriting and loss expenses than direct writers.

Enabling Success

Clearly, there is no substitute for the high-skill/high-will agent. However, insurers cannot take this for granted. They must invest in giving agents the capabilities and support needed to succeed.

Carriers should help agents fulfill their value proposition through an optimized operating model. They must give agents tools to optimize cost, while enabling them to assume a more consultative, problem-solving role for insureds. Finally, they must ensure they have an infrastructure to fully support the role of the agent as a customer advocate.

Accelerating change presents strategic and tactical uncertainty in our industry. Are you partnering with your agents to mitigate the risk? Insurers that provide their agent partners with the right capabilities will succeed. The data shows it. **BR**

Hard Times

With tighter underwriting and reduced limits in play, the industry must work together to maintain profitability.

By **Lance Ewing**

Two customers were complaining about higher insurance premiums. One of them said, “There is a sign at my insurance agent’s office, ‘We take Visa, Mastercard, Discover Card, and American Express.’ After I paid my premium they took my Visa, my Mastercard, my Discover Card, and my American Express.” Or so the story goes. There is no longer a rumor of the hardening commercial insurance market. The property/casualty market has turned hard with several lines stiffer and some more expensive than others. A hard insurance market is defined as when clients seeking coverage from carriers in most cases will find: tighter underwriting criteria, limited markets for the client’s industry or activity, reduced limits, increased declinations to quote, and little or no room for negotiating terms or policy language. The insurance carriers are calling the tune.

The reasons for hard insurance market and premium price increases are numerous. These include but are not limited to, higher costs for claims (adverse loss trending), the dismal return on investments carriers had faced, mergers and consolidation of carriers, increased regulations, the reinsurance market and the lack of a true cyclical hard-soft market (aka a much longer and softer market). Many carriers had warned beforehand of the looming hard market being on the horizon, even as far back as two years ago.



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Many clients and risk management professionals, along with several professionals in the agent/brokerage community, did not heed the warning signs and have now been faced with the challenge of delivering uncomfortable news to the C-suite and their boards. When telling a client what may be bad news remind them that the decreased pricing and flat renewals of the last several years has led to consolidation in the carrier market and the necessity to leave and tighten certain market segments. The last seven plus prior years the client was able to see increased capacity, better coverage terms and exceptionally competitive pricing leading to compounded year-over-year savings. Insurance was cheap. Clients and brokers have to calculate those prior savings into the cost of today’s



increased premiums and not focus solely on the rate increases. Seeing the market through a 10-year lens will help shape the conversation related to the hard market.

On the other hand, as has happened in the past, carriers cannot get too aggressive, premium gouge or get too greedy too fast. Clawing it all back at once would not be the best approach for the insurance companies. When faced with a hard market, P/C clients will become more creative and resourceful. The previous hard market saw the development and increased use of captives, larger retentions, self-funding, layered and shared programs, the growth of risk pooling entities, and in some cases “going naked,” the term for not purchasing coverage and self-insuring. Increased internal loss control and risk

appetite assessments are more likely to be in the client toolbox in a continued hard market. Just as carriers have inordinate amount of analytics and data to validate their position, so now do clients and their brokers.

Loss data, accidents per-miles-driven, decreased payroll, quarterly revenue, shareholder litigation costs, and other data mining all are available to the client in real time. The client can now see via their own data and predictive analytics where it may make sense to increase a self-insured retention, drop limits or financially form a captive.

Insurance is a symbiotic dance between the client, the broker, the insurance carrier and the reinsurer. Each has to remain profitable for the interdependency to exist.

BR

Frame Of Mind

Having a technology mindset is key to building an insurer's financial future.

By **Darcy Dague**

Insurers are at an inflection point when evaluating their technology investments.

A fast-changing world is putting pressure on their traditional business models, and many insurers have been responding by investing in technology.

As they adopt new systems with artificial intelligence and cloud solutions, a big question is being asked of executives: Are technology investments paying off in revenue growth just yet?

Organizations believe they have a good grasp of technology, according to Accenture's *Future Systems* study, which included a survey of more than 500 insurance firms. However, many insurers still lag behind their leading peers when it comes to the value they derive from those tools.

How is the industry extracting the most from their investments?

Leaders will likely double revenue growth. An insurer's journey with technology will determine how much revenue growth they can achieve. Innovative firms that score among the top 10% across three components, including how well they adopt technology and embed it in processes and culture, are set to double their revenues from 2015 to 2023, Accenture reports.

It's during the time when leaders will break from the pack that we expect them to capture 37% more in revenue growth over "laggard"



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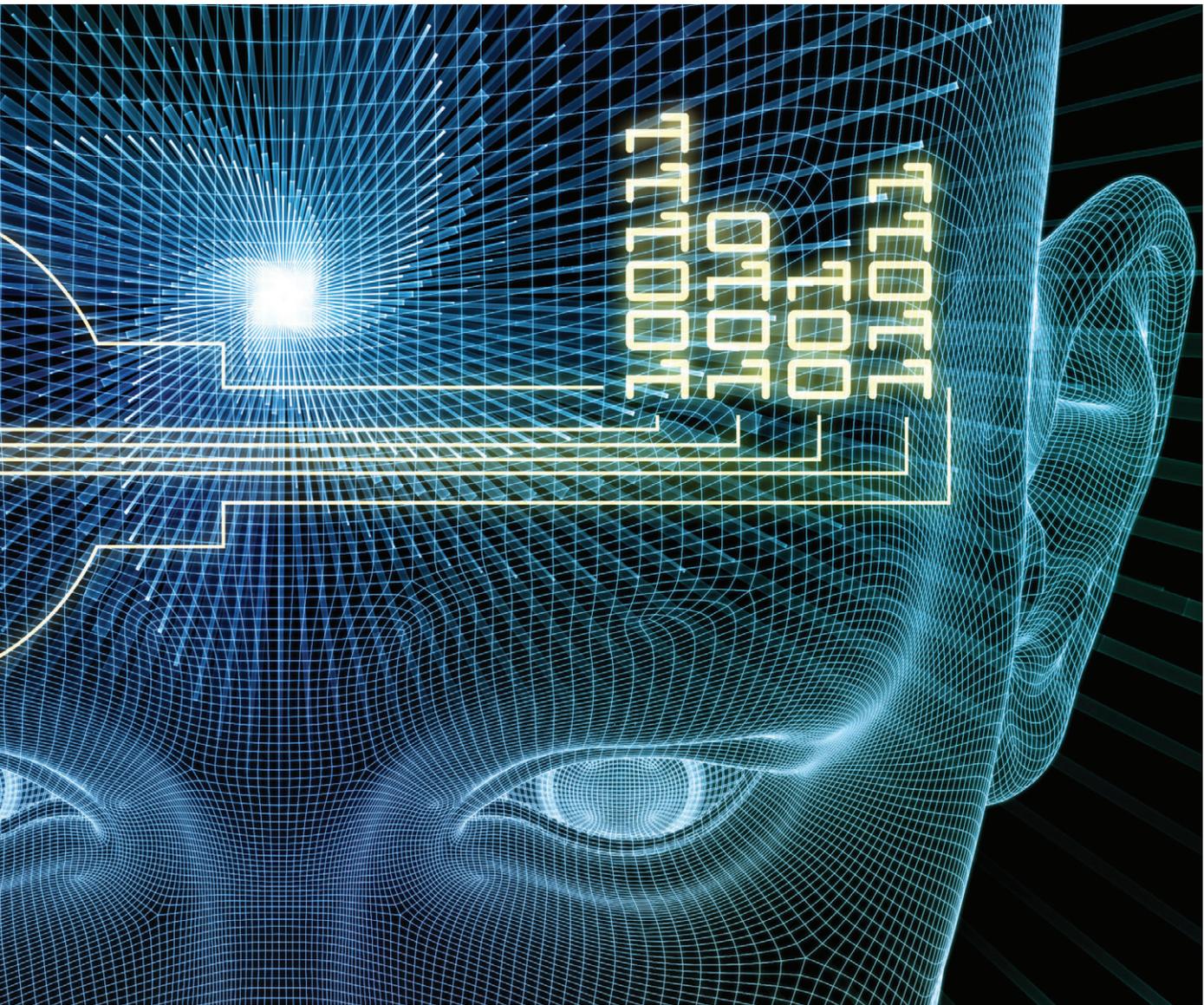


companies, or firms that scored the lowest across the three components. Even firms who score in the middle still show themselves to be missing out on revenue opportunity growth. The difference can equate to billions of dollars.

The best systems adapt to humans. Insurers who trail industry leaders tend to fall behind when it comes to mastering technologies at scale and at speed, decoupling the IT stack and building flexible architecture.

Adaptable systems powered by data and intelligent technologies learn on their own. Systems must be able to talk, listen, see and understand the way employees do their work and how customers engage.

Silo-based spending is counterproductive. Insurance CEOs' best intentions are thwarted



when they place business unit, product or geography heads in charge of all technology investments for their areas. While this approach delivers short-term benefits in those areas, it also creates silos of deeply established technology that isn't easily interoperable.

Without appropriately connected data, the business is barred from the full potential of insights and innovation opportunities that the data generates. It also results in more complex systems maintenance when looking at enterprise scale technologies.

Collaboration and cultural integration are key. More than 90% of insurance leaders are effective at working with cross-department teams, according to Accenture research. But above all, CEOs will need to clearly articulate

the business outcomes they expect and invest in technology that aims to deliver those outcomes.

The most important success factor is how decision-makers see the potential and purpose of their organization's technology spend.

Mindset not money. While investment in key systems is necessary, it isn't enough to ensure you're a market leader.

Technology is not a silver bullet, but its full potential is about finding the right way investments are planned and managed, how they are used to transform the workforce, and the corporate mindset that influences all decisions and behavior.

The differences between leaders and the rest of the pack are key to understanding where you really are and what you should be doing. **BR**

The New Paradigm

Insurers face a challenge in trying to balance the use of new technology and respecting consumers' privacy.

By **Howard Mills**

Insurance is a data-driven industry. Everything that insurers do, from marketing to underwriting to paying claims, is based upon the analysis of data. Insurers have vast troves of data about their customers and prospective customers. They have invested heavily in new technologies so as to be able to make better, more effective use of this data.

Insurance companies are particularly challenged by the tsunami of consumer data protection laws that are sweeping the global marketplace.

In 2018, the European Union's General Data Protection Regulation (GDPR) set the stage for this new era of regulatory scrutiny on how data is used and how to protect consumers in this data-driven age. The GDPR requires transparency around the use of personal consumer data by requiring companies to appoint a data protection officer who is mandated to implement technical and administrative measures pertaining to data security and who will be held accountable for compliance. EU companies must create data protection impact assessments, they must report any security breach to authorities within 72 hours and they must communicate with any individuals whose data might have been compromised. Finally, GDPR changed the game with the scope of the penalties—failure to comply can result in fines of up to 4% of annual global sales.

In 2019, financial services companies regulated by the New York State Department of Financial Services were required to be in compliance with the NYDFS Cybersecurity Regulation which seeks to

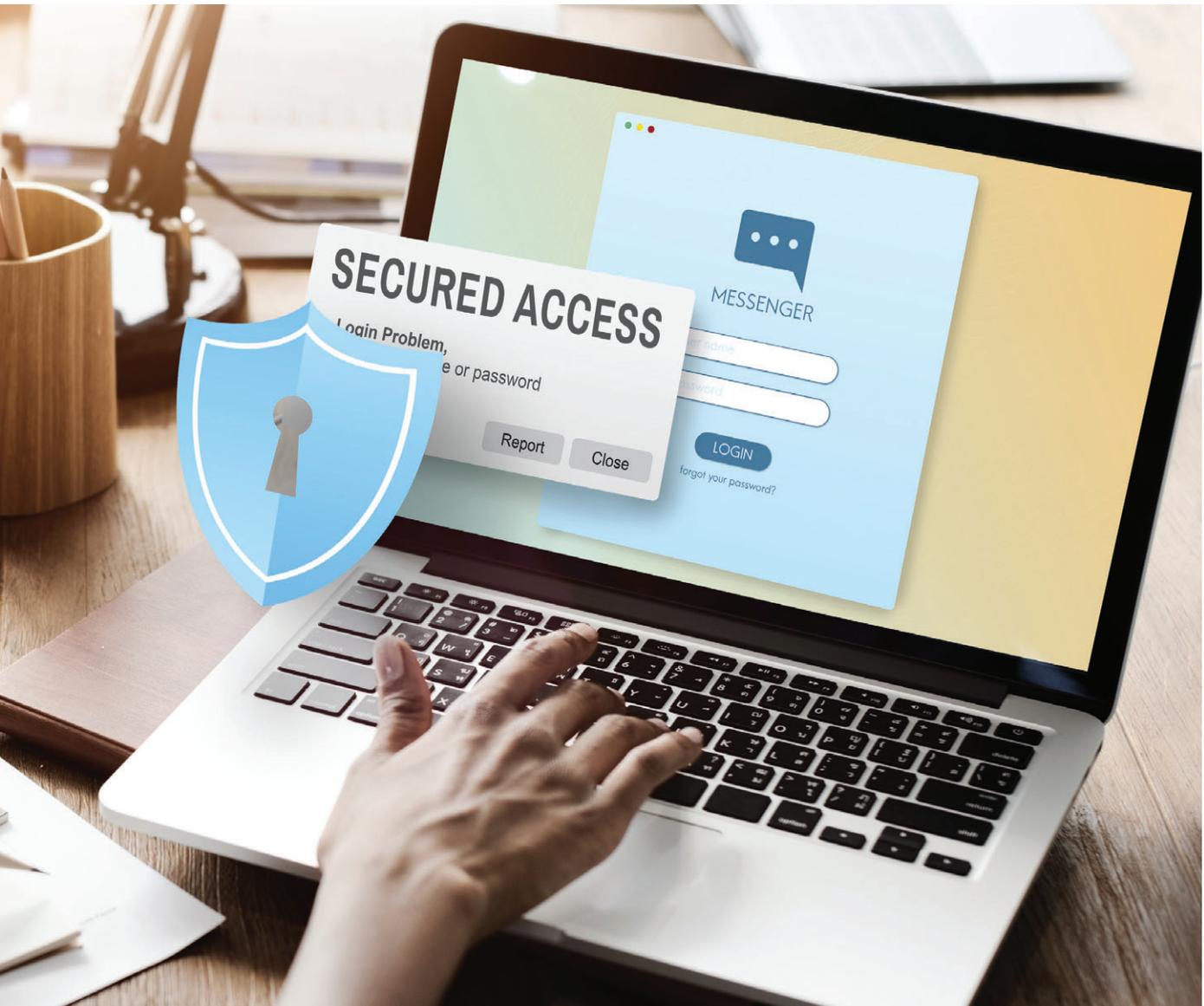


Best's Review columnist **Howard Mills** is an independent senior adviser with Deloitte and a corporate director. He previously was superintendent of the New York State Insurance Department. He may be reached at howmills@deloitte.com.



protect consumer data from criminal cyberattacks. That regulation stipulates that companies conduct regular security risk assessments, maintain audit trails of data usage, implement defensive infrastructure, develop cybersecurity policies and procedures and create an incident response plan. The New York cybersecurity plan quickly became the basis for the NAIC cybersecurity model act and has been widely adopted all across the United States.

And in January, the California Consumer Privacy Act (CCPA) went into effect giving California residents the right to know what personal data is being collected. CCPA empowers consumers to prohibit the sale of their personal data and to demand that a business delete their personal information. Any discriminatory actions by a company toward a consumer for exercising their data privacy rights is



banned. It is expected that California's actions will be widely replicated around the country.

Clearly, regulators have served notice that the rules governing the use of consumer data have irrevocably changed and the insurance industry is responding. Insurers have spent a lot of time and money preparing to comply with the European Union's GDPR, the NAIC and NYDFS cybersecurity regulations and California's privacy act. But have they done enough?

Looking ahead, insurance companies need to also brace themselves for additional insurance regulatory initiatives. Many insurers are struggling to meet the new insurance regulatory requirements because their siloed IT legacy systems lack integration. The sheer volume of data being maintained also poses significant risk. Insurers should consider establishing a more comprehensive information governance program

that addresses these and other data management and privacy challenges, not just to meet compliance standards, but also to enable better business decisions and actions. Potentially helpful approaches include:

- Utilizing data minimization, which involves setting protocols to automatically flush superfluous information on a regular basis.
- Increasing engagement with customers to better leverage all the new data at their disposal.
- Asking questions about current data and privacy governance: what and where data about specific consumers is being stored, how complete and accurate it is, and how it is being used and protected.

Societal views regarding the ownership of personal information is clearly evolving and the insurance industry, data-driven as it is, will be at the forefront of this global dialogue. **BR**

Panning for

As life insurers search for ways to boost business, pension risk transfers may be just the gems they are looking for.

by Terrence Dopp

When Ed Root was pulling together a jumbo—over \$1 billion—pension risk transfer deal five years ago, he'd sometimes find just two or three insurance company bidders.

Not an ideal position for a company looking to unload the liabilities.

Root, managing director and head of the annuity purchase group at Willis Towers Watson, said that's changed for the better. The firm bills itself as the

largest placement adviser in the U.S. pension risk transfer market.

"Now, you might get five or six insurance companies bidding on a jumbo deal and perhaps 10 bidding on smaller deals around \$100 million and this increased competition has led to better pricing for plan sponsors," Root, whose firm advised on the \$6 billion buy-out FedEx undertook in 2018's largest deal, said.

"The overall U.S. life insurance market is very mature and products have low growth rates," he added. "Pension risk transfer is the only large U.S. product that has very large market-growth potential."

Terrence Dopp is a senior associate editor. He can be reached at terry.dopp@ambest.com.



Gold

There's about \$3 trillion in outstanding U.S. pension funds. Somewhere between about a third and half of that pool consists of plans that have been fully frozen by their sponsors. Think of that pot of money like a ripped-up dollar bill—companies want to get rid them as soon as they can afford to.

The growth speaks for itself.

U.K.-based Legal & General in a February report said the U.S. pension risk transfer business in 2020 could surpass the prior year and post the biggest year yet for a growing business.

Markets for PRTs grew in both countries, with the sector climbing from average annual volumes of less than \$3 billion in the U.S. prior to 2012 to an expected \$30 billion in 2019. Despite the growth, America's market is dwarfed by that seen across the Atlantic Ocean, where U.K. transactions

Key Points

Demand: The U.S. market for pension risk transfers increased from less than about \$3 billion prior to 2012 to 10 times that amount.

The Impact: Insurers are counting on that revenue to bolster income squeezed by years of low interest rates.

The Risk: Market going south or longevity gains could leave insurers who entered the deals on the hook to cover losses.

were on track to total more than £40 billion (US\$52 billion) for the same year.

The sheer volume of U.S. PRT deals also has ballooned in recent years, according to a February survey by the Secure Retirement Institute that looked at the full market.

There were a record 501 so-called single premium pension buyout contracts sold totaling \$28 billion in 2019. Total sales in 2019 were up 5% above the prior year and the highest total sales volume the group has recorded since 2012. Group annuity risk transfer sales rose 8% to \$30.5 billion in the 12-month span.

Major Drivers

Several factors sped up the pace of U.S. pension deals. A strong equities market in 2019 and ramped-up employer contributions left the plans better funded. Life and annuity insurers also were willing to bet on the market as a low-risk way to augment bottom lines struggling with years of low interest rates.

But low risk doesn't mean the pool of money isn't completely without some possibility of danger. Medicine could make a quantum leap. Markets can go south, leaving companies on the hook to pay pensioners the same liabilities they'd budgeted for with rosier projections.

"Once an insurance company enters into one of these transactions the pricing is set. If these people live longer than expected, they are not likely to realize the returns that they priced for," said Thomas Rosendale, who is a director in the AM Best Rating Services division responsible for the ratings of companies active in the PRT market. "Asset risk and longevity risk are the two primary risks here. Also, since the companies active in this market often take on the responsibility of making monthly payments to large numbers of retirees, there is also some operational risk."

Rosendale said the transactions are generally seen as a positive development for insurance companies, with insurers typically taking on pools



“Once an insurance company enters into one of these transactions the pricing is set. If these people live longer than expected, they are not likely to realize the returns that they priced for.”

Thomas Rosendale
AM Best Rating Services

of retirees with a weighted average liability duration of eight to 10 years. The longevity risk associated with these transactions can also serve as a natural hedge for insurers with large mortality books.

The Art of the Deal

In a PRT deal, a defined benefits plan provider sells either all or a tranche of liabilities to an annuities provider. This allows the companies to offload risk, while shifting focus back to running their business. For the companies who assume the risk, it's a pool of new business and fits in line with the age-old operations of a life insurer.

Athene Holding Ltd. announced Feb. 25 it carried out a pensions deal with Armstrong World Industries that totaled about \$1 billion.

“While retail sales were impacted by low interest rates, we more than made up for it with

record deposits across our pension risk transfer and flow reinsurance channels and reemerging activity in funding agreements,” James Belardi, chief executive of Athene, told investors during a Feb. 18 conference call to discuss fourth-quarter earnings.

The tax overhaul signed by President Donald Trump early in his term lowered corporate taxes to 21% starting in 2018 from 35%. As a result, some companies sped up multiyear initiatives to put more money into their pensions in order to take deductions at the higher rate. In fact, a study out of the University of Wisconsin-Madison found firms increased pension contributions 25% to 31% in 2017.

At the same time, the federal Pension Benefit Guaranty Corporation, which guarantees the defined-benefits plans of some 35 million American workers, raised premiums to \$83 per participant in single-employer plans this year from \$35 in 2010. In short, companies are paying more to carry pensions at precisely the same time higher funding levels are translating into better terms.

“If I was the CEO of a basic corporation that had a defined benefits plan that has been closed for quite a while, its funded status was good and there's a chance to sell that to an insurance company and remove that as a source of future extra earnings drain on my balance sheet?” said Colin Devine, principal of consulting firm C. Devine & Associates. “I would do it in a heartbeat.” A well-designed PRT deal can have a 10%-12% return on equity at a time when interest rates on 10-year Treasury bills remain near historic lows, he said. The deals prove especially attractive to large insurers that originate their own investments and have the flexibility to customize and obtain a bit more yield on those investments, he said.

Growing Market

Single-premium buy-out sales increased steadily from 2013 to 2019.



Source: Secure Retirement Institute

“It’s a very lumpy business line. You can see a bunch of deals one year and then the well’s dry for three years.”



Colin Devine
C. Devine & Associates

Life/annuity insurers understand mortality and have shown a particular interest in transactions that scoop out only plan beneficiaries that are retired, he said.

“It’s a very lumpy business line. You can see a bunch of deals one year and then the well’s dry for three years,” Devine said. “It’s opportunistic; it’s augmentative to what you’re doing. It creates a long-term source of stable earnings.”

MetLife in January said it had entered into a \$1.9 billion agreement with defense contractor Lockheed Martin to provide annuity payments to 20,000 people in its defined benefits pension plan.

Legal & General listed that transaction as the third-largest U.S. deal in 2019, after separate \$2.4 billion agreements entered into by Bristol-Myers Squibb Co. and Baxter International Inc. For the U.S. PRT market, the Legal & General report said \$3 billion in plan terminations are expected to close in the first quarter of 2020, compared with \$1.8 billion that closed in the same period of 2019.

The largest U.S. deals to date both took place in 2012. That year General Motors entered into a \$25.1 billion deal that saw Prudential Financial provide annuities to 110,000 people. Also that year Pru closed a \$7.5 billion group annuities deal with Verizon Communications Inc.

In 2019, MetLife surveyed U.S. defined-benefit plan sponsors on their attitudes toward PRT transactions. Among the findings: 76% of those plans with so-called de-risking strategies plan

to completely divest of pensions at some point in the future. That poll threw in interest rate changes alongside funding levels and Pension Benefit Guaranty Corporation premiums as reasons for the increased interest in PRTs.

Root, of Willis Towers Watson, said further market growth could be dramatic if the average market funded status of pension plans gets above 100% from a current rate of about 85% and very large plan sponsors start regularly doing deals of more than \$5 billion every deal. The U.S. could quickly be a \$50 billion market, he said.

“Think of it as a door and everyone’s kind of nosing around the door, and the door can only handle so many people going through it all at once,” he said. “So the first two or three people are going to get through the door and it’s just going to get bottlenecked after that as everyone runs through the door.”

On the other side of that door, he said the number of financially solid insurers waiting for the business has doubled in the past five years and more enter each year. Some of them managed to double their business in the past few years. “Actions speak louder than words; so obviously these insurance companies see the growth,” he said. **BR**

Top 5 US Pension Risk Transfer Deals – 2019 (US\$ billions)		
Company	Insurer	Amount of Deal
Bristol-Myers Squibb Co.	Athene Annuity and Life Co.	\$2.40
Baxter International Inc.	Prudential Insurance Co. of America	\$2.40
Lockheed Martin Co.	MetLife subsidiary Metropolitan Tower Life Ins. Co.	\$1.90
Weyerhaeuser Co.	Athene Annuity and Life Co.	\$1.50
Avery Dennison Corp.	American General Life Ins. Co.	\$0.75

Source: Legal & General and Best’s News Service



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BEST'S REVIEW® ISSUES & ANSWERS: NONPROFITS AND RISK ANALYTICS

Experts discuss the challenges facing insuring nonprofits and how insurers can creatively use data and analytics to assess risks.



Interviewed Inside:



Paul Siragusa
Philadelphia Insurance Companies



Stephan Hochburger
Munich Reinsurance America

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Protection for Nonprofits

Paul Siragusa, vice president of underwriting for Philadelphia Insurance Companies' Human Services Division, said there's been a devaluation of money in the public eye from an insurer's perspective. "You hear more and more about billion-dollar jury verdicts when a million dollars used to be a large verdict," he said. The following are excerpts of an interview.



A Member of the Tokio Marine Group

What are the biggest issues facing the nonprofit insurance marketplace these days?

We're starting to see the impact of recent legislation on the availability of insurance coverage in the marketplace, specifically for abuse and molestation coverage. All of the social inflation and the media coverage of these new bills and laws that have been passed in several states have really brought abuse and molestation issues into the forefront. We're starting to see jury verdicts that are far in excess of what we used to encounter in this space. Another problem is latency of claims. By extending the statute of limitations, people who were abused can come forward as much as 40 years later in some cases. It's difficult for an insurer to defend a case for something that happened that long ago. The resulting effect in the marketplace that we're seeing is a real reduction in capacity.

Tell us more about your capacity concerns.

We're starting to see decreased capacity on the part of both primary carriers and reinsurers, in terms of high limit excess policies. PHLI is no longer offering high-limit umbrellas and instead turning a keen eye toward high-hazard exposures. We're seeing the same thing on the reinsurance side. On one-off placements, we're seeing them offer significantly less in total limits exposed on a particular risk. Carriers who used to specialize in just excess casualty have shown a decreased interest in this space.

What do you suggest for agents on how to face the current market challenges?

The biggest issue agents need to face is getting out ahead and informing their clients of the lack of availability of coverage and educating them of the nature of a hard market and the fact that prices are firming in addition to the fact that the capacity is dwindling. The greatest source of friction that we see between agents and their clients is that they weren't properly prepared for the news. It wasn't the fact that their premiums went up or that their limits decreased. The other issue I would say that's important is to start discussing with clients that their insurance program may very well change in the coming years. They may need to talk to them about maintaining less in terms of excess limits.

Paul Siragusa

Vice President of Underwriting
Philadelphia Insurance Companies' Human Services Division



"PHLY's risk management is amongst the best in the industry with the resources available to help our clients assess their enterprise risk management programs."

Go to the Issues & Answers section at bestreview.com to watch an interview with Paul Siragusa.

What is PHLI doing to help address the market challenges?

PHLY is one of the top five players in this human services insurance space. Last year, we finished out the year with \$1.1 billion in written premium for just our human services products. We're looking to grow that segment in the coming years. The way that we plan to do it, however, is to judiciously apply the limits that we have available to us and to really scrutinize the particular exposures on a given risk. As we move forward, we'll be looking much more closely at difficult legal jurisdictions, along with the types of programs that our insureds provide, whether that's foster care and adoption type programs or child residential facilities. All of that will factor into the availability of limits and the pricing that goes along with that. We currently have some of the best coverage forms in the industry to address these liability concerns.

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Data Analytics Reimagined

Stephan Hochburger, client executive and senior vice president for Munich Reinsurance America, said there has been a tremendous evolution in data and analytics over the past five years. “Sophisticated carriers have caught on and are just now cracking the nut in how they can creatively use data and analytics to make better informed decisions when it comes to risk assessment and placement,” he said. The following are excerpts of that interview.

When it comes to evaluating risk, how are data and analytics being used today?

They’re used in various ways helping us in risk assessment. They help us in rating and pricing of risks. They supplement and complement both internal data as well as outside data from traditional insurance questionnaires. In extreme cases they’re actually at the point now where data and analytics can, in some cases, take the place of the manual underwriting process. For some lines of business data, analytics, and feeding artificial intelligence can select risk and price risk.

What do you see as the biggest challenges in risk analytics?

It’s the data quality. As the saying goes: It’s garbage in, garbage out. Testing the data that you collect before you actually implement it in any kind of decision-making process is an extremely important step. Otherwise you run the risk of using data to make incorrect selections, and that can have a very bad outcome, and can be a very costly outcome. The second challenge is how to creatively use your own data. All insurance carriers have tremendous amounts of data, but the way the data is organized has to be adjusted to be suitable for data analytics and to give us broader answers.

How do you see risk analytics changing in the future?

It’s going to get better. I think it’s going to become an even more important part of our industry with every day that goes by. It’s going to allow us to identify trends faster and not just on the underwriting side, but also on the claims handling side. Data analytics can help us here.

How do you see analytics being used for better risk assessment?

It’s the combination of available internal data, using it creatively and then looking at it differently. Then supplement it with regularly



- Creative, intuitive and approachable analytics.
- Cutting-edge data visualization.
- Interactive and dynamic dashboards.

Stephan Hochburger

Client Executive and Senior Vice President
Munich Reinsurance America



“[Risk analytics] is going to allow us to identify trends faster, and not just on the underwriting side, but also on the claims handling side.”

Go to the Issues & Answers section at bestreview.com to watch an interview with Stephan Hochburger.

available outside data. There are areas that are more suitable than others at this point. Personal lines would be one as it is more than half of the property and casualty industry and it’s more than half of the premiums written. That’s a tremendous opportunity for a quick start. Small commercial is obviously also quite attractive, low-hanging fruit for creatively using data and analytics. Munich Re is working with our clients to help them better be prepared to use both proprietary and third-party data to analyze and predict risk. Ultimately, the goal is to help them price, underwrite, and process claims more efficiently and effectively for their customers.



A **Global** View of the Insurance Industry

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New Age of Risk

Risk

Technological advancements and societal shifts have created a new age of risk for insurers.

The collection and use of biometric information—fingerprints, iris or retina patterns, voiceprint and other identifiers—has led to a surge in class action lawsuits. “Without Consent” explores the regulations, litigation and potential pitfalls related to biometrics.

Litigation risk has multiplied for casualty lines. In “Legal Maneuvers,” we dissect the societal trends and current lawsuits that have contributed to this growing exposure.

Climate risk and sustainability also are key concerns not only for insurers, but also for regulators. “A Renewed Focus” looks at how the insurance industry is responding to climate risk.

“Living ‘on’ the Grid” takes a look at the risk considerations related to smart cities, while “Need for Speed” drills down specifically into 5G technology.

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



COVID-19 has captured the world’s attention since January. “Pandemic Viewpoints” examines the impact of the novel coronavirus on the insurance industry.

In this special section, *Best’s Review* takes a magnifying glass to emerging risks.

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Without Consent

A deluge of class action lawsuits involving the use and collection of biometric information is creating new concerns for insurers, including the potential for costly claims settlements and a new swath of directors and officers claims.

by Lori Chordas

the Six Flags theme park for collecting their son's fingerprints without consent.

The Illinois intermediate appellate court ruled unanimously in favor of the parents, signaling for the first time that individuals alleging violations of the Illinois Biometric Information Privacy Act do not have to suffer actual injuries to qualify as aggrieved persons.

The historic decision is creating concerns

for insurers, who may be on the hook for claims arising from such cases. Insurers also fear the ruling will open the floodgates for plaintiffs' lawyers to file more BIPA class action lawsuits in the future.

In another ongoing case in Illinois, Church Mutual Insurance Co. filed a class action with the state's federal court asking a judge to declare that a biometric privacy suit launched against Triad Senior Living affiliate Waterford Estates is not



The threat of biometric information privacy and security is quickly growing into a “significant new class action risk.”

Laura Lapidus
CNA Insurance

covered by policies the insurer issued to the senior center in 2018 and 2019.

Those cases are among more than 200 BIPA-related complaints and class action suits that have been filed over the past two years by employees or customers alleging that companies or social media websites failed to comply with the statute’s requirements.

In 2008, Illinois broke new ground when it became the first state to enact a biometric privacy act that mandates that companies collecting fingerprints, iris or retina patterns, voiceprint and other biometric identifiers obtain prior consent from consumers and securely store and safeguard that data.

Since then several other states have enacted

their own biometric privacy laws. However, Illinois remains the only state with a private right of action that allows citizens to file lawsuits over the issue.

As the deluge of BIPA-related litigation winds its way through the courts, the threat of biometric information privacy and security is quickly growing into a “significant new class action risk,” said Laura Lapidus, the management liability risk control director at CNA Insurance.

She was scheduled to discuss that growing threat in a session at the RIMS Annual Conference and Exhibition in Denver on May 3-6.

The stakes are high for insurers, and experts fear that some may begin pushing back on their obligations to defend or settle claims.

In 2018, Zurich American Insurance Co. and American Guarantee & Liability Insurance Co. told a California court that they didn’t owe a duty to defend or indemnify software company Omnicell in a BIPA suit. The court granted a motion to stay pending resolution of an underlying case, according to reports.

Insurers’ actions to contain their potential exposure to those kinds of claims have so far been limited, said Kevin LaCroix, an attorney and executive vice president at RT ProExec, an insurance intermediary focused exclusively on management liability issues.

But he expects the anticipated rise in biometric-related proceedings and high statutory damages could change that and create new exposures for the industry, including climbing settlements, gaps in coverages and a potential rise in directors and officers claims.

A Rising Tide

Following on the heels of BIPA, Washington, Texas, New York, Arkansas and, most recently, California have enacted their own biometric statutes or expanded existing laws to include biometric identifiers.

On Jan. 1, the California Consumer Protection Act went into effect, creating new consumer rights relating to the access, deletion and sharing of personal information and biometric data collected by companies.

Today a handful of other states, including Alaska, Arizona, Florida and Massachusetts, are also considering adding sweeping biometrics privacy laws on the books.

Illinois' is arguably the most stringent state law, and penalties for violating the act can be costly.

BIPA allows plaintiffs to seek a \$1,000 penalty for each negligent violation and \$5,000 for each willful or reckless violation, said Lisa K. Jaffee, an attorney and assistant vice president at Gallagher Bassett Specialty, a division of Gallagher Bassett, a global provider of risk and claims management services. Plaintiffs also may seek injunctive relief and recovery of attorney fees and litigation expenses.

Following *Rosenbach*, many defendants have opted to settle BIPA claims filed against them.

Earlier this year, Facebook agreed to pay \$550 million to end a class action suit that alleged it violated BIPA by failing to disclose to users its use of an automated tagging feature powered by facial recognition technology.

Also this year, biometric-based identity verification and authentication provider Jumio reached a proposed \$7 million settlement in a class action lawsuit filed under BIPA for allegedly performing facial biometric processes without meeting the informed consent requirements of the state.

Only in the past several years have class action complaints and high-profile settlements like those vaulted biometric information into the spotlight. Yet the use of biometric identifiers has a long history dating to the prehistoric period when, according to reports, cavemen left handprints on walls as a signature of its originator.

By the mid-1800s, the systematic capture of

5.5 billion

The amount of biometrically enabled mobile devices that will be in use by 2022.

Source: Acuity Market Intelligence

hand images was aiding in identification purposes. Today, fingerprints, facial patterns, voice and typing cadence and other biometrics have become the new norm in personal identification in everything from smartphones and banking to national security.

But with the use of any kind of advanced technology, "there's a good side and a dark side," LaCroix said.

One challenge is the patchwork of state rules regulating the use and safeguarding of biometric information and the absence of federal laws governing that data.

Also businesses "rushing to get on the biometric bandwagon" are doing so without fully understanding the risks, said Lisa Simon, vice president of property and casualty business management at Swiss Re.

Unlike credit cards or Social Security numbers that can be replaced if they're stolen or disclosed, fingerprints and DNA can't be altered. "So if biometric data is hacked or not properly secured, there's a far greater potential to companies for long-lasting harm," she said.

Digging into D&O

Directors and officers insurers could also be hit by the growing barrage of biometric information privacy litigation, and Kevin LaCroix, a 35-year veteran of the market and an attorney and executive vice president at RT ProExec, expects those claims to become "the next big potential D&O exposure."

The rise of the #MeToo movement and the growing swath of sexual harassment and assault claims filed against company officials, celebrities and others has shined a spotlight on the role corporate leaders play in those events.

"We could soon see a similar situation arising in cyber and claims involving the use and collection of biometric data where directors or officers knew

or should have known what was going on but failed to take action," LaCroix said. "And that could also be troublesome for vendors and third parties with contracts affected by something related to biometric data."

Whether a biometric privacy claim triggers D&O insurance depends largely on the allegations of the claim and specific language in the policy, LaCroix wrote in his November 2019 *D&O Diary* weblog.

However, much like commercial general liability and cyber, D&O policies often include invasion of privacy or data breach exclusions, which could limit coverage for BIPA and other biometric data violations, he said.



“Insurers’ biggest task now is understanding the evolving risk of biometric data privacy and trying to make it fit under the traditional scope of coverages.”

Kevin LaCroix
RT ProExec

Coverage Options

Insurers expect to also feel the heat from many of those long-term ramifications, and since *Rosenbach*, many have been scrambling to understand and manage their potential exposures.

“Their biggest task now is understanding the evolving risk of biometric data privacy and trying to make it fit under the traditional scope of coverages,” RT ProExec’s LaCroix said.

One such coverage is employment practices liability insurance.

Today companies across the globe are shedding traditional time clocks for biometric workforce management tools such as fingerprint and facial recognition devices to monitor employee time and attendance and increase security and point-of-sale access.

However, employers failing to obtain consent to collect that information or neglecting to alert employees about the purpose, retention or disposal of that data collection could be pulled into class action proceedings.

Companies may be eligible for coverage under their EPL policies, which offer financial protection against workplace invasions of privacy under the definition of a wrongful act. However, EPL policies often contain exclusions for intentional violations

or statutory violations, Swiss Re’s Simon said.

In the initial complaint preceding *Church Mutual v. Triad Living Center*, an employee alleged the senior center where she worked disclosed employees’ fingerprint data to third parties, including a payroll vendor, without their consent.

Triad filed an insurance claim under its multiperil policy. However, Church Mutual filed a declaratory judgment action of no coverage in Illinois federal court, arguing that the employment practices coverage contained an applicable exclusion for violations of the law, and that “the directors and officers, professional liability and general liability coverages all contained exclusions for injuries to employees,” Jeff Bowen, a partner at Perkins Coie wrote in the law firm’s Jan. 13 *Tech Risk Report*.

Another area in which BIPA claim defendants might seek coverage is under their commercial general liability policies, which provide coverage for bodily injury, personal injury and property damage caused by a business’ operations, products or injury that occurs on its premises.

However, some CGL policies contain exclusions that can preclude coverage, such as for injuries arising out of laws that govern the collection and distribution of material or information, Simon said. “And questions may arise as to whether the policies cover intentional violations, injunctive relief or statutory damages.”

Cyber insurance, LaCroix said, is a “natural place” to look for privacy liability protection arising from the unauthorized release and inadvertent disclosure of biometric data, including coverage for regulatory proceedings and crisis management activities.

However, cyber policies are like snowflakes, said

95%

Percentage of U.S. adults who say privacy laws must be used to protect personal data.

Source: Braze

Roberta Anderson Sutton, management liability, insurance recovery, cybersecurity, privacy and data protection attorney at RAS Enterprise Risk Management Services.

“Each policy is different, with terms and conditions that can vary dramatically from insurer-to-insurer and even from policy-to-policy underwritten by the same insurer,” she said.

“As a result, successful negotiation and placement of cyber coverage requires identification and consideration of an organization’s specific potential risk scenarios, knowledge of available products in the marketplace and careful attention to the specific policy language under consideration,” Sutton said.

Opening the Floodgates

Industry experts fear the recent Facebook decision and the rise of other multimillion-dollar class action settlements could open the floodgates for BIPA and biometric privacy litigation to proliferate.

Even today, some of the world’s biggest household names, including Google, are fighting class action lawsuits alleging they have violated the state rule.

The expected rise in those and other smaller complaints is especially alarming for insurers who may be left holding the bill for those claims or who themselves could one day be named as defendants in those suits.

There’s also growing concern that while traditional insurance coverages may cover those types of claims, “there inevitably will be gaps in coverage,” Sutton said.

Those concerns will likely drive some big changes in the industry, including the re-evaluation of coverage defenses, additional policy exclusions and the potential need for a broadened definition of covered “loss” in policies, she said.

Sutton also expects that while most policies will cover civil fines or penalties, cases like Church Mutual’s underscore the importance of ensuring that “statutory damages are covered to the extent practicable.”

Over the next several years, commercial use of biometrics is expected to increase dramatically, with more than 5.5 billion biometrically enabled mobile devices by 2022, according to Acuity Market Intelligence.



Companies are hailing biometric information as “a valuable, useful commodity. There appears to be a growing consensus by the public that more controls over the collection and use of that very sensitive data are needed.”

Lisa K. Jaffee
Gallagher Bassett Specialty

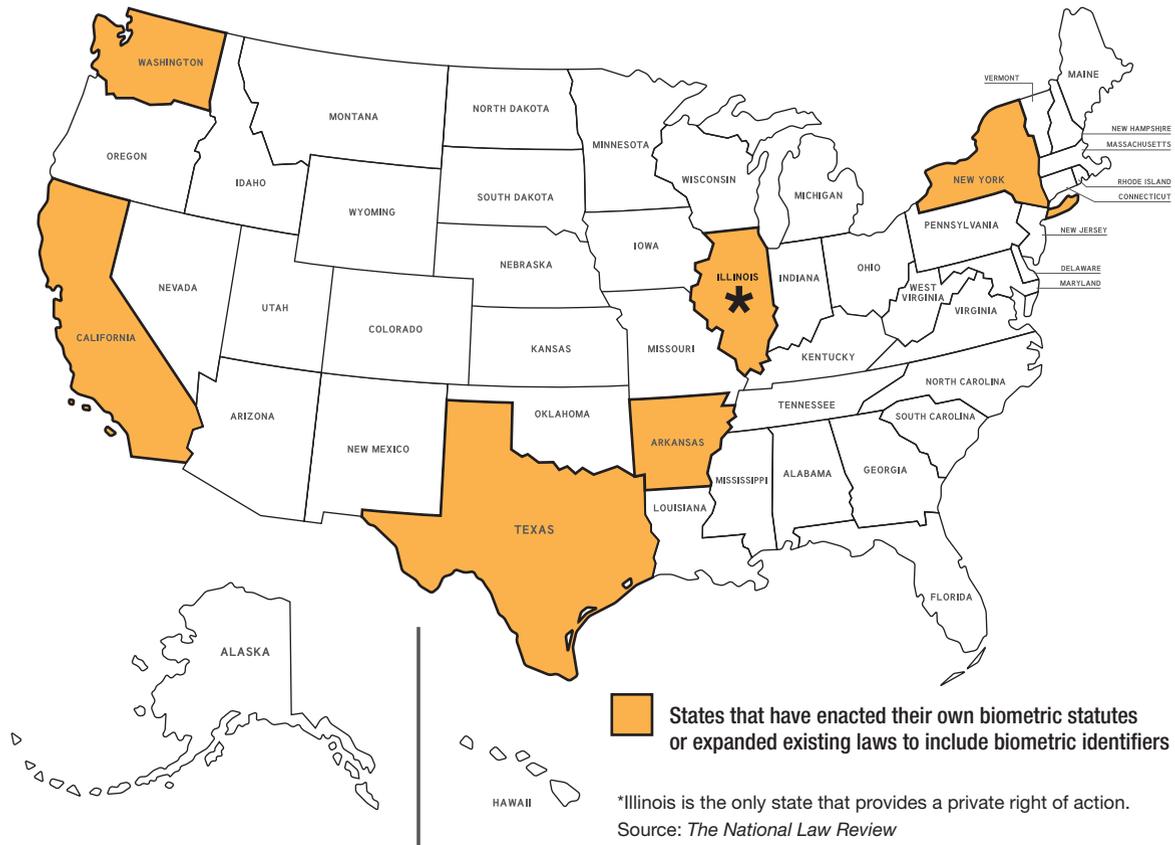
CNA’s Lapidus projects the incidence of litigation to arise from the collection and storage of biometric data to follow a bell curve. However she said it’s unclear when that curve will hit its peak.

“Right now we’re seeing a lot of failure to notify and obtain consent suits under the Illinois BIPA. However, the next wave could be focused on other areas which are undefined in BIPA, such as whether a company that has provided notice has provided adequate notice, or whether a violation is negligent or willful,” she said.

Companies around the world are hailing biometric information as a “valuable, useful commodity,” Jaffee said. “There appears to be a growing consensus by the public that more controls over the collection and use of that very sensitive data are needed.”

In a recent study by consumer engagement

U.S. Biometric Privacy and Data Breach Laws



platform Braze, 95% of U.S. adults said privacy laws must be used to protect their personal data.

So far states have taken the lead on that front. However, the creation of federal oversight over the use and storage of biometric data is now starting to gain momentum.

In February, New York Senator Kirsten Gillibrand called on Congress to pass her Data Protection Act, which would create an independent federal agency that would serve as a mediator to define, arbitrate and enforce rules related to the protection of personal data.

Insurers may take steps to try to manage the scope of the potential exposure, whether that's through their underwriting processes and procedures or the addition of more questions on insurance applications to find out the kinds of information companies are collecting, Jaffee said.

"Then they can assess that risk and adjust premiums accordingly," she said.

Jaffee also suggests insurers look at the scope of coverages and exclusions in their policies to decide whether this is a risk that they'll want to write in the future.

While biometric data is expected to remain

a hot-button privacy issue, RAS' Sutton doesn't foresee it becoming "a black swan experience" that could materially impact the availability of cyber insurance or other types of business insurance coverages.

Instead, she expects the permeation of privacy claims to become part of "today's ever-changing, challenging cybersecurity, privacy and data protection landscape, which no doubt continues to present challenges for organizations across industry sectors and their insurance carriers alike."

Insurers, however, are well-positioned to alleviate many of those challenges by educating clients about the need to comply with state law requirements and implement best practices and protocols for data protection, Jaffee said.

Risk managers, too, have an important role to play.

"Because the regulatory and reputational costs of biometric data violations can have a long-term effect on companies, having a careful, enterprise-wide view of the risks will help risk managers make informed choices about whether the use of biometric information is appropriate for their organizations," Jaffee said.

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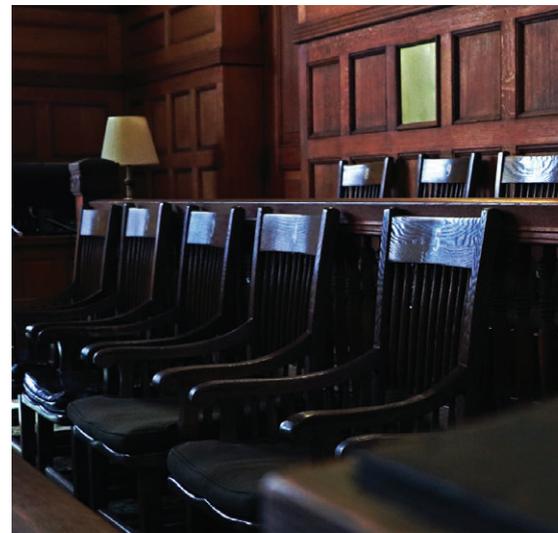
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Legal Maneuvers

Casualty insurers try to catch up to a shifting litigation landscape.

by Kate Smith

Stephen Catlin has been sounding the alarm, warning that casualty insurers face a crisis of catastrophic proportions.

A decade of underpricing has left the industry ill-prepared to handle the growing exposure created by social inflation and inflated jury awards, the founder of Convex Group wrote in February's *Best's Review*.

Kate Smith is managing editor of *Best's Review*. She can be reached at kate.smith@ambest.com. **Meg Green**, senior associate editor, ^{AM}BestTV, contributed to this story.

Social inflation has become a scourge on the industry. Some argue the industry brought the crisis on itself through inadequate pricing and reserving, but there is no question that the litigation landscape has shifted.

The term "social inflation" generally describes societal trends that have contributed to the increasing costs of liability claims. That catch-all descriptor, however, boils down to some very concrete changes affecting litigation.

Those changes have caught some casualty insurers off-guard.



Observers point to an expanding pool of plaintiffs, shifting jury demographics, negative public attitudes toward corporations and the rise of litigation funding firms as factors amplifying litigation risk in liability lines.

Contributing to the problem is that the same claims are hitting multiple lines, so insurers are defending them repeatedly. Claims of workplace harassment, for example, once principally defended under employment practices liability policies, are seeping into the directors and officers line.

Carriers also are seeing a spike in securities class action lawsuits following the Supreme Court’s *Cyan v. Beaver County Employees Retirement Fund* decision. And they are defending against new legal theories seeking nontraditional damages.

All of these factors have increased systemic risk.

“The exposure has been amplified,” Sridhar Manyem, director, industry research, AM Best Rating Services, said.

Key Points

Inflated Risk: Litigation risk has grown in response to shifting jury demographics, anti-corporate sentiments and the rise of litigation funding firms.

Plaintiff Pool: Both the number and types of plaintiffs are expanding.

Rate Reaction: Casualty insurers are raising premiums to catch up with increased loss costs stemming from market dynamics.

Market conditions underlying these litigation trends are unlikely to change. Rates, therefore, must. At the PLUS D&O Symposium in February, insurers called today’s loss environment “the new normal” and said premiums must reflect the reality of the exposure.

“The heightened level of litigation, that’s not going to change,” Danny Hojnowski, executive vice president of TransRe, said at the symposium. “We all talk about the #MeToo movement, event-driven litigation, litigation financing, there’s so many different

things—buzzwords—that keep being talked about at all these conferences. For me, the biggest challenge facing the industry is complacency on the part of underwriters.

“In the past year we were able to achieve about 20% rate across multiple management liability lines of business,” Hojnowski said. “That’s good, it’s not great. We need to keep pushing double-digit rate increases as an industry.”

New Pools

Opioid litigation provides a prime example of the expanding plaintiffs’ pool. Many of the largest suits were filed by communities seeking recompense for financial damages caused by addiction.

“If you look at the opioid litigation, the plaintiffs are a lot different than in previous litigation that was like opioids,” Bob Reville, CEO of Praedicat, said. “Opioids is part of a longer line of litigation that goes back to tobacco. In the tobacco litigation, you had only states who were the plaintiffs and only six tobacco companies that were the defendants. That resulted in a \$250 billion settlement to be paid out over 25 years.

“In years after that, one thing that emerges is that other levels of local government that have faced expenses from tobacco public health issues have not had access to the tobacco settlement fund. With the opioids litigation, you have not just states involved in litigation, but local governments, tribal nations and even recently, school districts. What that means is you have a lot more plaintiffs and more types of damages that are being claimed in the litigation.”

In October, two Ohio counties reached a \$260 million settlement agreement with three drug distributors and an opioids manufacturer. That same month, the Miami-Dade School District in Florida sued a dozen opioids manufacturers and distributors to recover costs it has incurred as a result of the opioids crisis, including money spent training school nurses on how to treat an overdose, providing mental health counseling for students affected by the epidemic and hiring additional security to prevent opioids from entering the schools.

Reville warned that similar suits could arise from other issues, such as exposure to Roundup Weed Killer, diesel exhaust or even sugar.

“It’s not hard to imagine that this could be a model for other litigation,” Reville said.

Michael Menapace, an attorney with Wiggin and Dana, said the expanding range of plaintiffs has caught some off guard.

“It’s fair to say that insurers expect that when companies manufacture and sell products there will be a certain number of claims associated with those products. That’s part of the industry,” Menapace said. “I would doubt that many people expected this new wave of types of plaintiffs.”

Menapace added that corporate plaintiffs, such as self-funded health plans and multiple employer welfare arrangements, are also bringing class or mass actions against pharmaceutical companies for alleged misrepresentations in sales and marketing. Such suits illustrate a change in legal theory, particularly as applied to commercial general liability insurance.

“It’s not, ‘I took this bad medicine and now I’m suing you for bodily injury,’” Menapace said. “The theory is, ‘We spent more money on this than we should have, and we’re injured financially.’”

“So we have insurers who have issued CGL policies, and we no longer just have plaintiffs who are claiming bodily damage, which is one of the two triggers for a CGL policy. Is the CGL policy duty to defend even triggered when you’re defending against somebody who’s claiming only monetary loss? The courts are wrestling this, and different courts have gone different ways.”

To a carrier, the demarcation line in such situations might seem clear. But this is where social inflation comes in. Shifting jury demographics and anti-corporate sentiment can impact contract interpretations.

“There could be a liberal interpretation of a contract or you could have a really strict interpretation of a contract,” Manyem said. “The way the contracts are being interpreted is becoming more plaintiff friendly.”

Jury demographics, particularly the emergence of millennials in jury pools, have contributed to this shift. According to the 2019 *Deloitte Global Millennial Survey*, only 55% of millennials view business as having a positive effect on society and 26% of millennials said they do not trust business leaders as sources of accurate information.

“You’re seeing more plaintiff-friendly juries and courts, and increased penalties,” Manyem said.

More Suits

Perhaps not surprisingly, D&O lines are being hit particularly hard as a result of changing sentiments toward corporations. According to the Best's Market Segment Report *Expanding Risk Exposures Present D&O Insurers with Significant New Challenges*, professional liability insurers are facing a "minefield of potential litigation" and defense and cost containment expenses in 2018 were 57 percent higher than in 2011.

In the wake of the #MeToo movement, boards are being accused of creating environments that have allowed for sexual harassment to occur. They're also frequently targeted by shareholders over the financial impact of cybersecurity breaches and environmental, social and governance (ESG) failings.

"It seems like nowadays everything is [deemed] securities fraud," Hojnowski said. "If you have any sort of stock drop, you're going to be sued."

Many suits revolve around disclosures. For example, Exxon Mobil was sued in November for allegedly misleading investors about the risk of climate change on its business. In the case of data breaches, Manyem said, boards are being sued for not disclosing breaches quickly enough and for failing to adequately protect information.

"The disclosures become really important," Manyem said. "Plaintiffs say, 'You, directors and officers, stated in your 10-K that you look at employment practices regularly. But you didn't fulfill it appropriately. Or you said the company takes all methods to ensure that data is protected. That disclosure is wrong because you just got breached. How did you ensure this didn't happen? Why did you tell us that you ensured it?'"

Shareholder opposition to IPOs and mergers and acquisitions also is on the rise, with securities class action lawsuits at an all-time high. According to Cornerstone Research, a record 428 federal securities class action lawsuits were filed in 2019, spurred by 2018's *Cyan* verdict, which allows plaintiffs to file in both state and federal courts as opposed to just federal court.

Cornerstone reported that the number of filings in state courts rose to 49 in 2019, a 40% increase from the previous year. Almost half of those, it said, had parallel actions in federal court.

"That's played an important part in D&O in terms of the increase in frequency," Manyem said. "Earlier there was just one court where litigants could go



"The way that actuaries react to these trends is very important. You need to make sure you set reserves appropriately."

Sridhar Manyem
AM Best Rating Services

whereas now they can file in multiple places."

Class action litigation, whether related to securities or related to products such as Roundup, is often supported by litigation funding firms. These firms provide financial resources for plaintiffs to bring suit. This type of funding is considered a new global investment class and attracts investors seeking higher returns.

"There are very well capitalized litigation funding firms that use sophisticated financial modeling to decide what suits to bring," Menapace said. "Not a week goes by where I don't get an email from a litigation funding company asking if I want to talk about my current cases and whether they can assist. They don't realize I don't do plaintiffs work; they're just blasting all lawyers."

New Normal

Insurers can't control many of the dynamics impacting casualty lines. But experts say they can

US Directors & Officers Liability – Expanding Social, Litigation and Regulatory Risks

Exposure	Impact on D&O Market
Social Inflation	<ul style="list-style-type: none"> • The number of allegations and claims related to sexual harassment in the U.S. and globally is growing. • The #MeToo movement spread via social networks has empowered alleged victims to call out alleged perpetrators in substantially greater numbers. • This has led to increased numbers of claims against board members and companies accused of creating or allowing pervasive environments that made the alleged misconduct possible. • Claims initially defended by employment practices liability insurance carriers have spread to D&O insurance claims.
Securities Class Action Lawsuits	<ul style="list-style-type: none"> • Shareholder opposition suits have reached all-time highs in number, spurred by IPOs in recent years. • Settlement amounts, on average, have increased significantly. • Defense costs and attorney fees overall have spiked during the past several years. • Increase in securities class action lawsuit filings occurred as expected in 2019 after the verdict in the <i>Cyan v. Beaver County</i> case.
Cyber Security Risks/Data Breaches	<ul style="list-style-type: none"> • IT-related issues have shifted to management-level primary risks concerns. • Corporate leaders can be accused of withholding cyber breach announcements from consumers. • New data protection laws have created a considerable challenge, particularly for companies reliant on personal data for business. New laws include the California Consumer Privacy Act (CCPA) and, globally, the EU's General Data Protection Regulation (GDPR). • Directors and officers may be subject to securities action lawsuits owing to the financial ramifications for investors stemming from cyber breaches and the ensuing negative fallout, further increasing D&O claims and associated loss and settlement costs.
Environmental, Social and Governance (ESG) Failings	<ul style="list-style-type: none"> • Reputational damage to companies owing to ESG failings (for example, the failure to disclose climate change risks) may drive future litigation costs for D&O insurers • The expectations of regulators—along with governments, investors, and the public—about the ability of companies and boards to effectively focus on and address ESG issues have increased. • Many claims against directors and officers have been event-driven, emanating from bad news such as environmental disasters.

Source: AM Best data and research

improve underwriting, pricing and communication between their actuarial, underwriting and claims departments.

“Insurers sometimes miss the boat on trends,” Manyem said. “The way that actuaries react to these trends is very important. You need to make sure you set reserves appropriately, and you have certain inflation assumptions that you take into account in doing so. When those inflation assumptions change, actuaries need to react appropriately and claims people need to communicate with their underwriters so the underwriters can factor it into pricing. The communication loop, in terms of risk management, becomes very important.”

Pricing also is critical. After years of declining pricing, rates increased almost across the board in casualty lines in 2019. According to the Council of Insurance Agents & Brokers, commercial lines premiums went up every quarter in 2019. D&O rates increased by as much as 32% in the fourth quarter, while employment practices liability increases were as high as 22%.

Hojnowski said the D&O market is correcting itself. The problem and solution facing D&O lines, he said, can be explained with simple math.

“There are two components to a loss ratio, you have premium and then you have losses,”

Hojnowski said. “On the premium side, if someone started out with a 60% loss ratio, which is where much of the industry thought that the D&O books were running to, [and] you give back 5% in premium over five consecutive years, your loss ratio just ballooned to a 77. This doesn’t take into account any sort of claim inflation that we’ve heard so much about.

”On the claims side, take a similar scenario. A 60% loss ratio in 2012. Now if you add just a simple 5% claim inflation number to that, and you fast forward seven years, you’re now at an 84. When you combine those two factors, you’re well over 100 loss ratio, and that’s a 100 loss ratio, not combined ratio. I call it a correcting market, because the market clearly needed rate, and we saw that come in in 2019.”

Bethany Greenwood, head of executive risk for Beazley, agrees this is a correction.

“I’ve been asked about how long this might last,” Greenwood said at the PLUS D&O Symposium. “I think that it is a bit of the new normal, because what we’ve seen in the legal environment has actually only deteriorated from when we put those policies in place three years ago. Litigation’s going up, frequency is up, severity is up, so it just lends itself to premium being up.”

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Key Points

The Big Picture: Insurers are not only making their physical operations greener, they are beginning to redirect their institutional investments away from fossil fuel enterprises.

Another Factor: The industry is reconsidering the risk of underwriting fossil fuel lines that contribute to global warming.

What's Ahead: Insurers and regulators see responsible investing and underwriting as a mandate, not a political talking point.

A Renewed Focus

Insurance sustainability measures to concentrate on investment, partners and companies.

by Timothy Darragh

Insurers and regulators are intensifying their focus on climate change and sustainability in 2020. Look for those efforts to take a variety of forms this year as companies make their physical plants and operations greener and regulators focus on developing resiliency strategies and partnerships to leverage their members' strengths to take on the increasing risk of climate change.

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





“Our regulators, for instance, are increasingly focused and interested in the exposure that insurers have to climate risk, and what steps we are taking to address the issue.”

Thomas Leonardi
AIG

At the top of that agenda, from both within and the outside, will be efforts to redirect insurers’ institutional investments away from fossil fuel enterprises. That will be happening as insurers continue to reassess the risk of underwriting those industries.

Although not a new effort, the movement away from coal, in particular, got a boost in the most recent letter to investors from BlackRock, the world’s largest asset manager, said Peter Bosshard, finance program director for The Sunrise Project, an Australian project aimed at shifting the global finance system away from fossil fuels to clean energy.

BlackRock, he said, is among the biggest shareholders of insurers that underwrite coal operations, and according to the investor letter, is now “intensifying its focus and engagement with companies on sustainability-related risks.”

According to BlackRock’s investor site, as of Dec. 31, it had \$7.4 trillion under management. “BlackRock has identified exposure to coal as a major issue at U.S. insurers, and we expect the asset manager and shareholder to engage vigorously for a credible, accelerated low-carbon transition with the management of insurance companies, which continue to insure and invest in coal and other fossil fuels,” Bosshard said. In a recent white paper, BlackRock also found insurers are “severely underinvested in renewable power.” Likewise, U.S. automobile insurers are underinvested in electric vehicles, it said.

Insurers also are reconsidering the risk of underwriting fossil fuel lines that contribute substantially to global warming. “The risk for companies that are involved with fossil fuel, especially coal and tar sands, is changing pretty quickly,” said Washington state Insurance Commissioner Mike Kreidler. “Insurers should and do monitor their risk portfolios to avoid being

overly exposed in any risk or geographical area.”

Companies are getting the message. “You have to go from fossil fuel to something else” even as fossil fuel, including coal, is still needed, AIG President and CEO Brian Duperreault said at the World Economic Forum in Davos, Switzerland. Executive Vice President Thomas Leonardi earlier this year announced AIG is developing a sustainability agenda “intended to help ‘future-proof our communities.’”

“This plan addresses expectations from across many of our key stakeholders, including investors, regulators, clients and employees,” he said. “Our regulators, for instance, are increasingly focused and interested in the exposure that insurers have to climate risk, and what steps we are taking to address the issue.”

Like other companies, AIG also has formed a climate change working group, which is identifying how it can improve sustainability across its own operations, he said. This year, Leonardi said, AIG will launch an Employee Sustainability Network, where employees can take action at a more local, grassroots level.

Following the voluntary, widely used method for climate-related financial reporting known as Task Force on Climate-Related Financial Disclosures, AIG last year reported having an investment portfolio of \$314 billion in 2018. Other companies recently accelerated their transition away from fossil fuels. Axis Capital Holdings Ltd. said it will, in most cases, eliminate new insurance and reinsurance coverage for companies that engage in thermal coal and oil sands-related activities beginning this year. It also will refrain from making new investments in those companies.

A month later, Axa S.A. said it would ban most business to new projects using substantial amounts

of coal and redirect its investments to those that will limit global warming. QBE, Hartford and Chubb announced similar plans in 2019. Liberty Mutual also is shying away.

Environmentalist Bill McKibben, whose 1989 book, *The End of Nature*, has been considered the first book for a general audience that outlines the perils of climate change and the need for sustainability, said the public is not satisfied with the pace of change. He said climate protests directed toward insurers will continue. “There will be ongoing pressure of all kinds on these companies until they stop funding and underwriting the fossil fuel industry,” he said. “Insurance is the discipline we ask to analyze risk in our system, and it has failed in that job, aiding and abetting the greatest risk the planet has ever faced.”

Ben Carey-Evans, an analyst at GlobalData Technology in London, seconded McKibben. The protests known as the Extinction Rebellion, which targeted insurance companies on Fenchurch Street in London in 2019, will continue, he said.

“The pressure is unlikely to decline due to the prominence of the issue and insurance’s traditionally close links to nonrenewable energy, so we expect action from insurers to continue into 2020,” Carey-Evans said. Change also is being promoted by regulators.

The Regulation Factor

The National Association of Insurance Commissioners since 2009 has been gathering data from insurers through its Climate Risk Disclosure Survey, which now captures climate activity information from insurers covering about 70% of the domestic market.

Kreidler, chairman of the NAIC’s Climate Risk and Resilience Working Group, said regulators this year are asking the 1,200 companies that respond to its survey to refer to the Task Force on Climate-Related Financial Disclosures guidelines when completing the survey. The working group also is considering developing a list of frequently asked questions to help regulators answer lawmakers’ questions about catastrophe risk, insurance and resilience.

Other regulatory plans for 2020 include the drafting of an International Association of Insurance Supervisors applications paper to



“BlackRock has identified exposure to coal as a major issue at U.S. insurers, and we expect the asset manager and shareholder to engage vigorously for a credible, accelerated low-carbon transition with the management of insurance companies, which continue to insure and invest in coal and other fossil fuels.

Peter Bosshard
The Sunrise Project

guide regulators on how to account for climate in the future, Kreidler said. That paper is expected to be completed at the IAIS meeting in Chile this fall, he said. To learn more about what insurers are already doing and reporting on their approach to climate change, regulators are encouraging two separate initiatives to analyze the information that insurers already have provided in the annual

NAIC survey over the past 10 years, Kreidler said. The American Academy of Actuaries and NAIC's Center for Insurance Policy and Research are conducting these initiatives, he said.

Among state regulators, California's Department of Insurance has taken the lead in addressing sustainability. Last year, it appointed Mike Peterson deputy commissioner for climate and sustainability—the first position of its kind in the nation.

He dove into the issue, working with Insurance Commissioner Ricardo Lara and the United Nations Environment Program in a yearlong effort to develop a Sustainable Insurance Roadmap to confront California's climate risks. According to the department, it is the first time the United Nations partnered with an American state to create a sustainable insurance strategy and action plan to tackle climate change.

The plan, it said, could inspire new insurance products to promote cooler streets and renewable energy. Innovations such as insurance covering coral reefs protecting bay side villages in Mexico and mangrove trees sheltering the coastline in

Southeast Asia could be brought here and adapted for California's wildfire-prone areas or New Jersey's exposed shoreline communities, Peterson said.

Peterson said among the most powerful messages he has heard so far is how insurance companies can become responsible investors, as the institutional investment houses and street protesters demand. A second awakening was how insurance department officials came to see how insurance companies can underwrite insurance policies to cover construction materials and building plans that support resiliency and sustainability, Peterson said.

Again, such a concept is "not new," he said, but it's "rare" among California insurers. Expect the roadmap to be released in late summer or early fall, Peterson said. Across the spectrum, insurers and regulators see the issue as a mandate, and not a political talking point. "Even in places in the U.S. where there is a disinterest in talking about climate change," Kreidler said, "regulators and elected officials are doing much more to seek to mitigate the effects of climate change." BR

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NEED for Speed

5G could engineer losses out of insurance, but the technology doesn't come without risks.

by Kate Smith

Fifth generation (5G) wireless networks are expected to radically transform industries, enabling self-driving cars, robotic surgeries and automated factories, among other things.

With its fast speeds and low latency, 5G will usher in a new era of connectivity, prompting an explosion of internet of things (IoT) devices and spurring the development of smart cities. The International Data Corporation forecasts the number of 5G connections to grow from roughly 10 million in 2019 to 1.01 billion in 2023.

But the promise of 5G does not come without risks—from increased cyber exposures to health and environmental concerns—and balancing the risks of this emerging technology (and its use cases) is critical for the insurance industry.

“From risk managers’ or from insurers’ perspectives, regardless of the risks, 5G looks pretty inevitable,” Martin Frappolli, senior director of knowledge resources for The Institutes, said. “The best thing we can do is learn. You’ve got to be prepared and find ways to mitigate the risk.”

Frappolli discussed the potential risks and benefits of 5G with *Best’s Review*.

What should insurers and risk managers be concerned about when we talk about the emergence of 5G?

To answer that, I’ll take a little step back and just talk about what 5G is. Initially, it confused a lot of people.

Five years ago, I got a new wireless router in the house that was 5G, so we’re using the same terms for something that really isn’t the same thing.

Just for setting a baseline, 5G is simply the newest generation of a wireless technology for a digital cellular network. If you’ve got a smartphone today, unless

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“5G, to the extent that it can make these smart home devices more ubiquitous and more user-friendly, brings the potential to engineer out a lot of homeowners losses.”

Martin Frappolli
The Institutes

it's really brand new, it probably has 4G technology.

When we talk about the concerns, and what should insurers and risk managers look for, it's important to understand 5G comes in three different flavors. They're called low band, mid band, and millimeter wave.

That low band 5G actually uses a frequency range similar to what 4G is. The 5G millimeter wave, that's the fastest flavor of 5G. It also has the shortest range and, therefore, requires more cells, more antennas, and doesn't travel easily through walls and windows, so it's probably not ideal for a lot of indoor deployment. The mid band 5G is the most widely deployed.

With that in the background, your question is why the insurers and risk managers need to be concerned with it. Like every new technology it's going to offer some opportunities, and perhaps risks.

The major risks involved are because 5G, especially at the highest speed, operates at a different frequency than 4G. That highest grade, the 5G millimeter wave, operates at a spectrum that's very close to the same frequency used by weather and Earth observation satellites.

There are some reports that 5G could interfere with services like weather predictions, and therefore have a potentially serious impact on public safety.

There's also always going to be concerns about espionage, spying related to new networks and new hardware. Especially to the extent that this hardware is manufactured in China, there is

concern that it will come with built-in espionage capacities.

This ties into the cyber and privacy concerns.

Are there health concerns over the millimeter waves or the high frequency?

From what I've seen, there are a lot of opinions. The internet is full of information, but what's legit and what isn't?

You can ask, “Well, what's different with 5G? Why do we have concerns with 5G that we didn't have with 4G?” The key feature of 5G is it's operating at this much higher frequency.

The 4G uses microwave frequencies below 2,500 megahertz, whereas 5G can use frequencies up to 28 gigahertz. There's a big difference in frequency. There will also be an abundance of new antennas every few hundred yards to support the higher speed type of 5G.

There are some who have concerns about increased exposure to radio frequency electromagnetic fields and the possible carcinogenic effects tied to that. Having said that, there are no reliable studies that prove or disprove the safety of 5G.

What are the environmental risks?

I haven't seen many credible reports on the environmental risks presented by 5G, unless you count the expanding number of cell antennas as somehow damaging to the environment.

You can go online, and you can find dozens,

maybe hundreds, of websites devoted to environmental concerns about 5G. Much of that has the feel of junk science.

Winnowing through it, the one thing that struck me as a legitimate concern—and it's not just 5G, it's cellphones in general—is the expanding number of devices and sensors that live on the internet of things.

That is, these all contribute to a growing dependence on certain rare earth-type minerals. That can introduce a vulnerability to our national security if another country is positioned to control the supply or cut off our supply to these minerals once we've built networks that depend on them. Further, there is a lot of criticism about the working conditions in many countries for the people engaging in extracting these minerals.

5G is expected to lead to an explosion of connected devices. What do you see as the IoT impact of 5G?

5G, to the extent that it can make these smart home devices more ubiquitous and more user-friendly, brings the potential to engineer out a lot of homeowners losses.

These devices can be fully leveraged to not only control the home—with your smart thermostat, your smart garage door, your smart refrigerator—but to anticipate and prevent issues. They can alert you that there's a looming water leak in your basement or a short circuit in your garage.

Smart devices are evolving from post-event alarms to pre-loss sensors. For example, a sensor that detects or anticipates a water leak can also shut off the water supply.

That could put us on the verge of engineering ourselves out of many of the common types of homeowners losses. Water losses are involved in a really high percentage of homeowners insurance claims. The big dollar ones are more often from storms and from fires, but the bulk of homeowners claims involve water losses.

When you look at the history of risk management and insurance, a lot of types of coverages start off as, "Oh, here's a horrible, unavoidable circumstance. Let's buy insurance so we can have compensation for the losses."

As technology and engineering evolve, a lot of those things move to, "Let's eliminate most of the losses and then just insure for a very small risk that remains."

Does the same hold true for auto lines?

In my mind, that's the biggest potential for 5G. The success of autonomous vehicles really depends on communication between your vehicle and the other vehicles, as well as between your vehicle and infrastructure.

The higher speed and the lower latency that 5G brings can be a difference maker in facilitating that type of instant communication between vehicles or between the vehicle and infrastructure that's needed to avoid crashes.

Given that 95% of all our accidents are the result of operator error, the potential there is just huge. I've long been excited about removing operator error from motoring and the potential that that brings, and 5G could be an important step in moving us closer there.

What do all of these connected devices mean in terms of cyberrisk?

It's always got to be top of mind. The deployment of so many more antennas, cell towers—even though they may not be a tower but rather a small pole on a rooftop—could go either way.

They could be used to enhance the security of the network, or each one could be a point of vulnerability. This is just crystal ball stuff because I don't know. I expect we'll see some of both.

It's the constant race between people who design and maintain communications equipment and the people who are seeking to hack it. Who's going to be a step ahead?

That's also part of the danger when you see any explosion of IoT devices. When you've got a smart coffeemaker from Black & Decker that's connected to your network, you have to wonder how savvy the folks at Black & Decker are going to be in making a coffeemaker hack-proof. If Microsoft and even Apple cannot make every device and system secure, why would we expect it from companies that aren't technology experts?

That's a very practical concern. You've just got more players. More players could mean more vulnerability. If I go back to something we touched on earlier, the more of this equipment that comes from China, the higher our concerns would need to be to double, triple, quadruple check the privacy and security.

BR

5G



Living 'on' the Grid

As urban areas are being transformed into smart cities, insurers must be aware of the emerging risks that follow.

by Thom Rickert

The development of smart cities is booming worldwide. A smart city deploys a combination of cyber and physical systems to transform the interaction between government, private enterprise and citizens. The goal is to create a seamless experience for all citizens, visitors and businesses.



Best's Review contributor **Thom Rickert** is senior vice president at Allied Public Risk. He can be reached at bestreviewcomment@ambest.com.

Smart cities aim to provide better social connections, improve alerts during emergencies and lessen environmental impacts, with a focus

Key Points

What's Happening: In an effort to build sustainable and resilient environments, metropolitan areas are implementing new technologies to become smart cities.

The Challenge: The development of smart cities also will bring risks from using new technologies, issues around transportation development and regulation, data security and public backlash.

What Needs to Happen: Insurers must recognize the emerging risks of smart cities and be ready to respond to new areas of loss.

on economic sustainability and overall resilience. However, with great reward comes great risk. While smart cities are an opportunity for development and innovation, they also come with new challenges such as risks from implementing new technologies, issues around transportation development and regulation, data security and public backlash. These risks can affect many aspects of the insurance industry.

Transportation Risk

The most obvious risk smart cities face is related to transportation. The goal of smart mobility in a city is to get people from point A to point B in the safest, most efficient and environmentally friendly way. Cities must shift their thinking from getting a vehicle from place to place and focus on moving people. From commuting to work or school, a day out on the town, biking or sharing the road with emergency vehicles, people need to move faster and smarter.

Safety issues arise as cities aim to get citizens to their destinations faster and with minimal disruption. Fatalities and injuries can pile up if technology, communication and data integration are poor.

Cities and governments struggle with the implementation of e-scooters, e-bikes, e-buses and more.

The Centers for Disease Control reports 20 individuals were injured per 100,000 e-scooter trips taken during a three-month period in 2019. Recently, a New Jersey teen was killed while riding an e-scooter provided to the city by the company Lime. The city's council then voted unanimously to end its six-month pilot program with Lime just 25 days after launch. Physical harm like this poses a big setback for cities looking to adopt wide systems of transportation and integrated micromobility.

To ensure as frictionless a changeover as possible, municipalities and companies need to work together on a coordinated and

comprehensive effort that links communications and systems so that data can be properly used to increase efficiency.

These new modes of transportation must also integrate into the existing infrastructure of the city. For example, a scooter dock should be next to a subway or e-bus station and so on. In Hoboken, N.J., e-bikes and scooters connect with public transit. In an effort to promote safety, the Hoboken police department hired more officers to police e-scooter traffic violations. Mobile apps should be used and linked on one platform to achieve maximum efficiency. With this comes the risk of data privacy concerns as citizens may not want their daily commutes recorded.

Cyber and Data Risks

As more transportation data goes online, more security risks emerge. A key component of smart

Diligence and dedication to the smart city will ultimately mitigate risks and create safer environments for citizens of today and of the future. However, the road to that safer environment will present challenges to insurers.

cities is the internet of things (IoT) technology, which enables the interconnection of computing devices embedded in everyday objects, enabling them to send and receive data via the internet. In a smart city, a smartphone, sensor, street lights and even a scooter are all linked on the same network, reading and analyzing data to predict and respond to traffic

patterns, the movement of people and other everyday occurrences.

IoT necessitates dedication to sustainability, efficiency and transparency. Implementing it comes with some big tasks: Infrastructure, transportation and data collection need to be upgraded or replaced, and secured with the proper cyber risk mitigation software. Cities must prepare carefully before diving into this endeavor, but if risks can be properly managed, urban centers will become more vibrant, sustainable and cleaner than ever before.

As cities integrate more IoT technology, public entities, counties, water districts and even schools will be exposed to hacking threats.

In December 2019, four U.S. cities were subject to ransomware attacks. As each sector brings more technology into the system (smart lights, sensors, wearables, etc.), they become more vulnerable. Currently, there's a lack of understanding about how devices work and how they could pose a threat. Just one compromised device can take down the whole system. As departments connect and expand, more devices will be deployed and thus, a greater risk.

Smart cities already have experienced malicious attacks, unintentional collapses of critical infrastructure, and systemic failures that have cascaded across networks. These failures often occur due to unexpected security flaws caused by connecting new smart networks to old, insecure platforms and devices.

The threat of ransomware follows closely behind data systems. With so many devices and sensors deployed and connected to each other, hackers could potentially take down the whole system in one fell swoop.

Without the proper defenses in place, a fully connected 5G citywide system would expose itself to hackers seeking ransoms or foreign government threats seeking to cripple infrastructure. A simple click on a phishing email on an IoT device by one employee can spell danger for the entire city. Continued and robust training for employees is needed to prevent these kinds of attacks.

Building Trust

Lastly, and perhaps most importantly, to properly build a smart city, cooperation between the citizens, the city, and state government is absolutely necessary. There are news reports about e-scooters being thrown into rivers, technology destroyed and the general distrust of new smart technologies.

A lack of cooperation and collaboration, and perhaps most importantly, a lack of trust are three of the major risks a city can face in the wake of smart city technology.

Without public support, the city cannot properly function and move forward. State governments, including New York, have turned down bills that would allow cities to permit the use of e-scooters and bikes due to a lack of sufficient coordination and clear goals.

While it's impossible to win over everyone, the city itself needs to engage and educate its citizens on the purpose and goals of becoming a smarter city. Trust can be built through transparency. For example, cities should explain why a certain sensor or an algorithm tracks their movements. It could be for better emergency response or better coordination of traffic. Either way, cities need to be clear about what they hope to accomplish.

When a city communicates its goal, people can reason and assess whether they want to share their data or not. Revealing details about new technology gives residents the opportunity to share their opinion and their trust with their municipal leaders.

Solutions

Diligence and dedication to the smart city will ultimately mitigate risks and create safer environments for citizens of today and of the future. However, the road to that safer environment will present challenges to insurers. Smart technology has the potential to touch every insurance discipline—claims, underwriting, actuarial and product development, to name just a few. As the urban landscape is transformed by autonomous vehicles and smart infrastructure, dramatic changes in loss patterns may emerge.

For example, in auto liability, health insurance and workers' compensation, will the reduction in frequency and severity of accidents require new predictive models to assure rate stability? The rise of IoT devices connected to infrastructure creates new vectors for cyberthreats.

As cybercriminals exploit vulnerabilities can the marketplace continue to support terms and conditions that allow for payment of ransom or will coverage focus on protection and recovery? Insurers must begin to put these emerging risks on their radar now to be ready when deployment is widespread.

Smart cities will change the way we live, work and explore. Overcoming the inherent risks that come with developing these smarter, more efficient cities is no small feat. Cyberattacks, public distrust and injuries from new types of micromobility technology are real threats, but can be managed if everyone shares the responsibility. Ultimately, building a smart city requires smart government and smart citizens. **BR**

Pandemic Viewpoints

Industry experts talk to ^{AM}BestTV about how COVID-19 is impacting the insurance market.



“Life and health insurers manage pandemic risk primarily through stress testing. These stress tests involve shocks to mortality, morbidity that last a fairly short period of time before grading back to the normal assumptions. Another area that insurers

might overlook is the impact on the GDP.

The Spanish flu, for instance is estimated to have cost the GDP 4.25%. Companies that have economic capital models are in a good position to model those kind of events that go along with the increased mortality and morbidity risks.

A further stress test that companies can look at is the reinsurance. There’s a potential for disruptions in reinsurance, with a high volume of claims that could be a result of a pandemic. There are a lot of things other than just the mortality and morbidity risks that companies can use to test or manage the pandemic risks.”

George Hansen
Senior Industry Research Analyst
AM Best Rating Services



“Pandemic risk is captured within all four building blocks [of the A.M. Best methodology]. To begin with, with the balance sheet, reinsurance is a major aspect of pandemic. Also,

multiple other factors, such as liquidity, fungibility, strength of reserves, quality of capital, all of these aspects that we look at in terms of qualitative and both quantitative are very important.

Under a pandemic scenario, those mechanisms could be put to test. Of course, the absolute level of

capital and the risk-adjusted level of capital are also extremely important.

Going on the operating performance, the diversity of earnings could also help as well. That gets into the business profile with concentration issues. Concentration issues are obviously a very predominant factor for property and casualty companies. For life companies, on their pandemic stress, that would be one place where that could come into play.

Last and not least, enterprise risk management, stress tests and the identification of the actual risk, the quantification of the actual risk within the risk appetite and risk tolerances, those particular stresses get the conversation going in terms of leading back to our first two building blocks, the capital that is required as well as the earnings that are at risk.”

Bruno Caron
Senior Financial Analyst
AM Best Rating Services



“A product most directly related to the claims arising from the virus outbreak would be health insurance.

Health insurance can be sold by both life and nonlife companies in China.

Indeed, this

segment has seen significant growth over the past few years. In 2019, the combined growth in the health segment of direct premiums written reached as high as 30%. This segment accounts for roughly 6.5% for the total nonlife net premiums written. We think that the claims arising from the virus outbreak will have a relatively limited impact to Chinese insurers’ underwriting profitability.

Take life insurers as an example. Currently within their health portfolio, roughly 65% of the premiums were sourced from critical illness policies.”

James Chan
AM Best Asia-Pacific Analyst



“Overall, the earnings for both life and nonlife insurance markets are expected to have profit weakening in 2020, especially in its first half due to low economic consumptions and slower new business

growth, as well as lower investment return.

On the new business growth side, the new business activities, especially the agency channel, will no doubt be contracted due to extended Chinese New Year holiday, contagion containment measures such as city lockdowns and travel restrictions.

Also, some measures that discourage in-person interactions.

This measure is also going to impact the nonlife insurance new business growth. This measure is also going to affect the nonlife insurance new business growth because these are going to affect

the new car sales, which is the largest line of business on the nonlife market.

On the investment side, the insurers are going to experience challenges from low interest rate environment, increasing credit risk and volatile equity markets.

We have observed a couple of years of increasing credit risk. Due to the economic pressure or downturn due to the coronavirus, there's potential increase, further increase in credit risks.

Nonlife insurance earnings historically depend heavily on investment return to subsidize the thin underwriting profit margin.

The volatile investment environment is going to add negative uncertainty to their profitability in 2020.”

Christie Lee
AM Best Asia-Pacific Analyst

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Eyeing Innovation

AM Best examines innovation in the insurance industry.

by John Weber

As part of AM Best's innovation initiative, it conducted preliminary testing of its rated universe.

In this five-part Best's Special Report, *The Advent of Innovation*, AM Best presents the key findings of its testing and aggregated results. The report also discusses AM Best's innovation assessment profiles, as well as the outlook for innovation.

Edin Imsirovic, associate director, AM Best Rating Services, discussed the findings of the report with ^{AM}BestTV. He said many of the insurers that scored highest on AM Best's innovation criteria tended to operate in more competitive, faster-evolving lines of business.

Following is an edited version of the interview.

How did insurance companies score overall?

In our report, we highlighted general trends related to distribution scoring and innovation. I do want to stress that these findings are very preliminary. In many instances, analysts had to rely on very early discussions to reach their conclusions.

Having said that, we do have some fairly interesting results. For example, only 1% of all of the companies in our rated universe scored in the highest or the leader category. Conversely, 17% of all of the insurance companies that we rate scored in the lowest or the minimal innovation category.

What I found very interesting is that a majority, or actually 50% of all of the companies in our rated universe, actually scored in the second-lowest or the moderate category. I found that very interesting, but also within our expectations, given the general state of innovation within the insurance industry, especially if you compare it to some of the other verticals.

Another general observation that we noticed as we went through these companies is that

companies generally tend to score higher on their input scores versus the output scores, the input scores being the leadership, the culture, resources, and processes. Thinking about it, it makes sense as the insurance industry has recently started to accelerate their innovation efforts after, and in response to, the changing market conditions. It makes sense to have this lag between all of the investments that they're being made in the inputs and the actual tangible outputs.

Are you seeing any other interesting correlations between innovation scores and other rating factors?

As a part of our research, we conducted various benchmarking exercises, where we compared innovation scores with various characteristics of companies, things like overall rating, operating performance, financial size category, business profile, and so on.

We really tried to look at this data from many different angles to see what kind of correlations we can find. Unsurprising to us, we found that the companies that had the highest ratings also generally tended to have the highest innovation scores.

Again, this was expected as innovation can often lead to sustainable competitive advantages that can often strengthen the company's position in the marketplace. In addition, we found out that the companies that had particularly high output scores also scored very well in innovation.

Again, this was within our expectations, given that in order to have those high output scores, you really have to have well-developed inputs and score well in those inputs to have such outputs.

In addition, when we were designing the criteria and the weighting on inputs and outputs, it's designed in such a way that it's really impossible for a company to be a leader or a top innovator in the industry without having the demonstrable, tangible output from their innovation efforts.

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“If I had to pick a theme, then I would say that we saw the validation of the phrase that necessity is the mother of invention, or innovation in this case. Consistent with this, the most innovative lines of business that we identified were reinsurance, health and auto lines of business.”

Edin Imsirovic
AM Best Rating Services

Have you noticed any common themes that differentiate companies?

Through this process, it became apparent that the most innovative players, and by most innovative players I mean those in the top two categories, the leader and the prominent category, were able to differentiate themselves by credibly quantifying their results of the output that’s resulting from innovation. If you look at the top 1% or the leaders, they really further distinguish themselves by being the first innovative movers within the insurance space, where they were really the timeliest in responding to changing market conditions and were often the companies that were the first to take advantage of these changing market conditions, either through introducing new products or services to the emerging needs.

Also, the top 1%, or the highest ranked leaders in innovation, also generally tended to have high transformation scores.

As we move down the ladder, the companies that we tested as significant, these companies typically recognize the need to innovate, but really hadn’t yet fully developed deep connections between their inputs and their outputs. The second-lowest category, or the moderate, where incidentally 50% of our universe is, they’re often just beginning to develop an innovation strategy, often in response to the changing market conditions.

Finally, in the minimal category, those were the types of companies that really had no meaningful innovation initiatives. In many cases, not all the time, but often these companies generally operate in less competitive conditions or market conditions.

Did any lines of business stand out as being particularly innovative?

We noticed that those lines of business where you’re having the most competition, or those lines of business where you’re having these significant structural shifts happening, or the lines of business where they’re very exposed to some of these exponential technological trends, these were the lines of business that were the most innovative.

If I had to pick a theme, then I would say that we saw the validation of the phrase that necessity is the mother of invention, or innovation in this case. Consistent with this, the most innovative lines of business that we identified were reinsurance, health and auto lines of business.

If you really look at these lines of business, you’ll see that all of these lines of businesses underwent quite a bit of change that really has forced these lines of businesses, or the players within these lines of businesses, to become more innovative.

We’re all familiar with the reinsurance space and what has been going on there in terms of the introduction of third-party capital, through things like insurance-linked securities and so on. That’s created a lot of pressure within the reinsurance space, and really has forced these reinsurance players to focus on becoming more than just capital providers. This has really created a lot of pressure, consolidation perhaps, but it has also spurred a lot of innovation in the reinsurance space as well. **BR**

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Go to bestreview.com to watch an interview with Edin Imsirovic.



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March 10, 2020 - 35 Pages

Special Report: US Property/Casualty Rating Downgrades Outnumber Upgrades in 2019

P/C downgrades outnumber upgrades for first time in five years.

March 9, 2020 - 11 Pages

Special Report: First Look: 12-Month 2019 Property/Casualty Financial Results

Industry underwriting income improved during 2019.

March 9, 2020 - 6 Pages

Commentary: ILS Market Looks to Future After Servicing Record Cat Losses

Strong ILS market navigates record-setting catastrophes and other challenges.

March 9, 2020 - 5 Pages

Special Report: US Life/Health Rating Upgrades Outnumber Downgrades in 2019

Strong capitalization and improved liquidity contributed to positive rating development.

March 9, 2020 - 11 Pages

Commentary: European Insurers Well-Positioned to Manage Potential Exposure to Pandemic Risk

Volatility in the wider financial markets could affect insurers' results and financial strength.

March 6, 2020 - 3 Pages

Market Segment Report: Lebanese Insurance Market Faces Mounting Uncertainty

Despite the management actions taken to date by Lebanese insurers, the mounting level of uncertainty in Lebanon implies that operating conditions could rapidly deteriorate further.

March 6, 2020 - 7 Pages

Commentary: Fate of the ACA Remains in Doubt, but No Changes ... for Now

We don't expect any significant impacts to health insurers in 2020—but that may not hold for 2021.

March 4, 2020 - 2 Pages

Commentary: What a Difference a Month Can Make

The Fed's surprise rate cut has been accompanied by rate cuts and stimulus measures in other countries, as governments try to deal with potential economic slowdowns.

March 4, 2020 - 4 Pages

Market Segment Report: 2020 Review & Preview: US Property/Casualty

Lower catastrophe losses and improving rate environment boost P/C financial performance.

March 2, 2020 - 20 Pages

Market Segment Report: Scrutiny of Management Approach Increases as London Cyber Insurance Market Grows

A growing cyber book could present a risk to a (re) insurer's financial strength if not managed appropriately.

March 2, 2020 - 8 Pages

Market Segment Report: 2020 Review & Preview: US Health

Declining medical cost trends and lower utilization underlie continued Stable outlook.

February 27, 2020 - 25 Pages

Special Report: Profits Continue to Rise for National Insurers in the United Arab Emirates

Net profits for UAE insurers have been strong over the last few years, but a number of factors could dampen future technical profitability.

February 27, 2020 - 6 Pages



The Evolution of Cyber Claims; State of the Directors And Officers Insurance Market

How cyber claims are evolving and emerging areas of liability exposure are examined in an AM Best webinar. Also, a deep dive into the directors and officers insurance sector.

On Demand

Digital Intelligence in Underwriting

A panel of life insurance underwriting experts examine the evolving capabilities of artificial intelligence, machine learning and how they are helping underwriting professionals assess risk with greater speed and accuracy, drawing on a wider range of data and tools.

Current Trends in the ILS Market

A panel of AM Best analysts examines developing issues in the ILS market, including the impact of multiple years of elevated catastrophic events, adverse loss development, and the role of collateralized reinsurance.

State of the Directors and Officers Insurance Sector

Authors of a new AM Best special report on the directors and officers insurance sector, along with industry participants, review financial results, cost trends, and emerging underwriting and exposure issues

How Life Insurers Are Using Innovative and Compliant Predictive Models

Recent regulatory inquiries are impacting how insurers across the country are utilizing advanced analytics. Topics include predictive modeling and compliance implications and how regulatory changes can be an opportunity for innovation.

Streaming Live

Speaking Up on Silent Cyber

Insurers have responded to cyber risk with new products and services, but cyber exposures affect many areas, including general liability, directors & officers, and other coverages. A panel of insurance counsel examine how cyber claims are evolving, where coverage areas are shifting and emerging areas of liability exposure.

Wednesday, April 22, 2 p.m. ET

Webinar Highlights

Homeowners Insurance Carriers Can Make Better Decisions Through Data

Authors of the 2019 LexisNexis *Home Trends Report* examine trends by peril and developments in underwriting, claims, expense management, technology and other factors important to homeowners writers.

View These and Other AM Best Webinars

- Municipal Bonds: The Evolution of an Important Asset Class for Insurers
- The Unseen Passenger: How Telematics Data Is Reshaping Private Passenger Auto Insurance

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

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PLUS Symposium, Loss Creep and Coronavirus

AM BestTV reports on issues discussed at the Professional Liability Underwriters Society's D&O Symposium in New York and Artemis ILS New York event, in addition to offering AM Best Rating Services insights. Loss creep and reserve charges were common topics.



On Demand

Cyber risks Expand to the Directors and Officers Realm

Attendees to the 2020 PLUS D&O Symposium in New York said the fallout from cyber- and ransomware-related incidents increasingly includes lawsuits and other issues that could trigger coverage under directors and officers policies. At the conference, Kristin Kraeger, managing director at Aon, discussed how cyber is now a D&O risk.



Kristin Kraeger

#MeToo Movement Claims Spread Into C-Suite

Sexual harassment claims typically trigger employment practices liability insurance, but are now spreading to directors and officers insurance, said attendees at the PLUS Symposium in New York. David Blades, associate director, AM Best Rating Services, discussed the subject with AM BestTV.



David Blades

Despite Challenges, ILS Market Is Expected to Grow in 2020

Insurance-linked securities experts gathered at the Artemis ILS NYC 2020 conference, including attendee Brad Adderley, are optimistic that the market will see an uptick in ILS issuance in 2020, despite trapped capital and natural catastrophe loss creep.



Brad Adderley

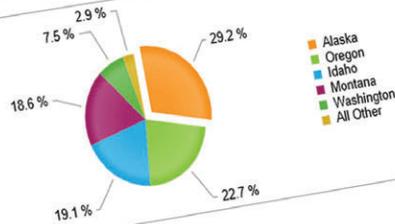
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Best's Key Rating Guide®

Best's Rating History

Rating Date	BEST'S FSR	BEST'S ICR
03/08/2018	A (Excellent)	a (Excellent)
10/08/2017	A (Excellent)	a (Excellent)
09/24/2016	A (Excellent)	a (Excellent)
08/14/2015	A (Excellent)	a (Excellent)
07/26/2014	A (Excellent)	

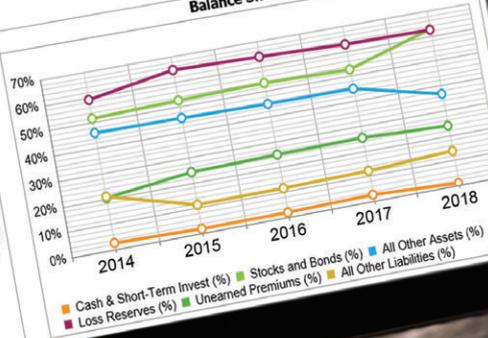
Principal States



Balance Sheet

	2014	2015	2016	2017	2018
Cash & Short-Term Invest (%)	2.5	1.7	1.8	2.5	0.8
Stocks and Bonds (%)	51.6	52.6	53.3	52.6	62.6
All Other Assets (%)	45.9	45.6	45.0	44.9	36.6
Total Assets (\$000)	44,475,809	42,655,159	42,343,217	44,001,882	46,020,755
Loss Reserves (%)	59.0	64.7	63.8	62.7	62.4
Unearned Premiums (%)	20.2	24.1	24.8	25.2	23.8
All Other Liabilities (\$000)	20.8	11.2	11.4	12.0	13.7
Total Liabilities (\$000)	29,349,413	26,085,859	26,527,949	27,473,676	31,489,431
Policyholders' Surplus (\$000)	15,126,396	16,569,300	15,815,268	16,528,205	14,531,323

Balance Sheet



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AM Best: Loss Creep Impacting ILS Market

Loss creep is impacting the ILS market both with higher losses and trapped capital, said Emmanuel Modu, managing director, AM Best Rating Services, at the Artemis ILS NYC 2020 conference in New York.



Emmanuel Modu

AM Best: Company Closely Watching Reserve Charges

Property/casualty insurers could be in the early days of ongoing reserve charges and deficiencies across the market, said Stefan Holzberger, AM Best Rating Services' chief operating officer.



Stefan Holzberger

AM Best: Loss Creep, Rising Reinsurance Rates Pressuring Florida Property Writers

Florida property insurers are facing loss creep and rising reinsurance rates, said AM Best Rating Services Director Michelle Baurkot and Senior Financial Analyst Chris Draghi.



Michelle Baurkot

Cyber Covering Emerging Risks and SaaS Issues

Industry experts talk with ^{AM}BestRadio about how the claims process has become faster and the ins and outs of SaaS.

Cyber Policies Evolve To Cover Emerging Risks

Kelly Castriotta, regional head of product development for financial lines, Allianz Global Corporate & Specialty, discusses how underwriting and products are changing to keep up with the risks that cyberattacks are creating.

Novarica: Insurers Embracing SaaS, But Must Adjust Processes to Adapt

Chuck Ruzika, vice president of research and consulting for Novarica, discusses how Software as a Service (SaaS) relationships are complex, long-lasting and often require more adaptability on the part of CIOs than traditional software purchases.

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BEST'S REVIEW®

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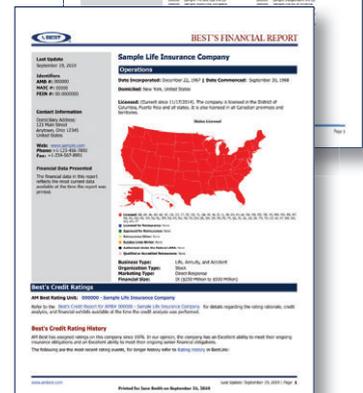
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Best's Credit Rating Actions

This edition lists all Credit Rating actions that occurred between Feb. 1 and Feb. 29, 2020. For the Credit Rating of any company rated by AM Best and basic company information, visit the AM Best website at www.ambest.com/ratings/access.html or download the ratings app at www.ambest.com/sales/ambmobileapp.

Operating Companies

Rating Action	Business Type	Company Name/ Ultimate Parent	AMB#	Current		Previous		Domicile
				FSR ICR	Outlook/ Implications	FSR ICR	Outlook/ Implications	
U.S., CANADA AND BERMUDA LIFE/HEALTH								
+	H	Bravo Health Mid-Atlantic Inc <i>Cigna Corporation</i>	064697	A a	Stable Stable	A- a-	Stable Stable	Maryland
+	H	Bravo Health Pennsylvania Inc <i>Cigna Corporation</i>	064743	A a	Stable Stable	A- a-	Stable Stable	Pennsylvania
✓	H	Commercial Travelers Life Insurance Co <i>National Guardian Life Insurance Company</i>	007361	A- a-	Positive Positive	A- u a- u	Negative Negative	New York
New	L	Global Atlantic Assurance Limited <i>Global Atlantic Financial Group Limited</i>	071815	A a	Stable Stable			Bermuda
+	L	GPM Health and Life Insurance Company <i>Government Personnel Mutual Life Ins Co</i>	006837	A- a-	Stable Stable	B++ bbb+	Stable Stable	Washington
✓	L	Guaranty Income Life Insurance Company <i>Kuvare Holdings LP</i>	006504	B++ bbb+	Stable Stable	B++ u bbb+ u	Developing Developing	Iowa
+	H	HealthSpring Life & Health Ins Co, Inc. <i>Cigna Corporation</i>	060673	A a	Stable Stable	A- a-	Stable Stable	Texas
+	H	HealthSpring of Florida Inc <i>Cigna Corporation</i>	064756	A a	Stable Stable	A- a-	Stable Stable	Florida
✓	L	Lincoln Benefit Life Company <i>Kuvare Holdings LP</i>	006657	A- a-	Negative Negative	A- u a- u	Negative Negative	Nebraska
+	H	Medco Containment Insurance Co of NY <i>Cigna Corporation</i>	010747	A a	Stable Stable	A- a-	Stable Stable	New York
+	H	Medco Containment Life Insurance Company <i>Cigna Corporation</i>	006449	A a	Stable Stable	A- a-	Stable Stable	Pennsylvania
↕	L	National Guardian Life Insurance Company <i>National Guardian Life Insurance Company</i>	006777	A- a-	Positive Positive	A- a-	Stable Stable	Wisconsin
+	L	Popular Life Re <i>Popular, Inc.</i>	060399	B++ bbb+	Stable Stable	B++ bbb	Stable Stable	Puerto Rico
+	L	Principal Life Insurance Company <i>Principal Financial Group Inc</i>	006150	A+ aa	Stable Stable	A+ aa-	Stable Positive	Iowa
+	L	Principal National Life Insurance Co <i>Principal Financial Group Inc</i>	007326	A+ aa	Stable Stable	A+ aa-	Stable Positive	Iowa
↕	L	Settlers Life Insurance Company <i>National Guardian Life Insurance Company</i>	009322	A- a-	Positive Positive	A- a-	Stable Stable	Wisconsin
+	L	Somerset Reinsurance Ltd.	061751	A- a-	Stable Stable	B++ bbb+	Positive Positive	Bermuda
✓	L	United Life Insurance Company <i>Kuvare Holdings LP</i>	007178	A- a-	Stable Stable	A- u a- u	Negative Negative	Iowa
U.S., CANADA AND BERMUDA PROPERTY/CASUALTY								
↔	P	21st Century Superior Insurance Company	011402	NR nr		A a	Stable Stable	California
↕	P	AgSecurity Insurance Company <i>Oklahoma Farm Bureau Mutual Insurance Co</i>	004099	B++ bbb	Stable Positive	B++ bbb	Stable Stable	Oklahoma
-	P	Allied Eastern Indemnity Company <i>ProAssurance Corporation</i>	012527	A a+	Stable Negative	A+ aa-	Negative Negative	Pennsylvania
🇺🇸	P	American Sentinel Insurance Company <i>LD Investments LLC</i>	004740	B++ u bbb u	Developing Developing	B++ bbb	Stable Stable	Pennsylvania

Rating Action: (+) Upgrade; (-) Downgrade; (New) Initial Rating; (↔) Under Review; (↕) Change in Outlook; (↔) Rating Withdrawal; (✓) Rating Affirmation.

Outlook: Positive, Negative, Stable. **Implications:** Positive, Negative, Developing. **Business Type:** P = Property/Casualty (Non-Life); L = Life; H = Health; T = Title; C = Composite.

Rating Action	Business Type	Company Name/ Ultimate Parent	AMB#	Current		Previous		Domicile
				FSR ICR	Outlook/ Implications	FSR ICR	Outlook/ Implications	
U.S., CANADA AND BERMUDA PROPERTY/CASUALTY (CONTINUED)								
🇺🇸	P	American Summit Insurance Company <i>Hilltop Holdings Inc.</i>	000722	A u a u	Developing Developing	A a	Negative Negative	Texas
🇺🇸	P	Anthracite Mutual Fire Insurance Company <i>Milville Mutual Insurance Company</i>	004729	NR nr		A- a-	Stable Stable	Pennsylvania
—	P	Argo Re Ltd. <i>Argo Group International Holdings, Ltd</i>	013313	A- a-	Negative Negative	A u a u	Negative Negative	Bermuda
—	P	Argonaut Great Central Insurance Company <i>Argo Group International Holdings, Ltd</i>	002219	A- a-	Negative Negative	A u a u	Negative Negative	Illinois
—	P	Argonaut Insurance Company <i>Argo Group International Holdings, Ltd</i>	002056	A- a-	Negative Negative	A u a u	Negative Negative	Illinois
🇺🇸	P	Argonaut Limited Risk Insurance Co <i>Argo Group International Holdings, Ltd</i>	003540	NR nr		A u a u	Negative Negative	Illinois
—	P	Argonaut-Midwest Insurance Company <i>Argo Group International Holdings, Ltd</i>	003078	A- a-	Negative Negative	A u a u	Negative Negative	Illinois
🇺🇸	P	Argonaut-Southwest Insurance Company <i>Argo Group International Holdings, Ltd</i>	002058	NR nr		A u a u	Negative Negative	Illinois
—	T	ARIS Title Insurance Corporation <i>Argo Group International Holdings, Ltd</i>	014152	A- a-	Negative Negative	A u a u	Negative Negative	New York
—	P	Atain Insurance Company <i>Alan J. Kaufman Revocable Living Trust</i>	012422	A a	Stable Stable	A a+	Stable Negative	Texas
—	P	Atain Specialty Insurance Company <i>Alan J. Kaufman Revocable Living Trust</i>	002842	A a	Stable Stable	A a+	Stable Negative	Michigan
⊕	P	Broome Co-operative Insurance Company	010924	A- a-	Stable Stable	B++ bbb+	Positive Positive	New York
—	P	Colony Insurance Company <i>Argo Group International Holdings, Ltd</i>	003283	A- a-	Negative Negative	A u a u	Negative Negative	Virginia
—	P	Colony Specialty Insurance Co <i>Argo Group International Holdings, Ltd</i>	002619	A- a-	Negative Negative	A u a u	Negative Negative	Ohio
—	P	Eastern Advantage Assurance Company <i>ProAssurance Corporation</i>	013861	A a+	Stable Negative	A+ aa-	Negative Negative	Pennsylvania
—	P	Eastern Alliance Insurance Company <i>ProAssurance Corporation</i>	012115	A a+	Stable Negative	A+ aa-	Negative Negative	Pennsylvania
⬆️⬆️	P	Eastern Mutual Insurance Company	000316	A- a-	Positive Positive	A- a-	Stable Stable	New York
—	P	FD Insurance Company <i>NORCAL Mutual Insurance Company</i>	013063	A- u a- u	Developing Developing	A u a u	Negative Negative	Florida
🆕	P	Federated Underwriting Company <i>State Street Corporation</i>	020822	A- a-	Stable Stable			Vermont
⬆️⬆️	P	Greenville Casualty Insurance Company <i>Greenville Casualty Insurance Company</i>	012324	B bb	Stable Positive	B bb	Stable Stable	South Carolina
⊕	P	Hanover Fire & Casualty Insurance Co <i>Hanover Fire Holdings, Inc.</i>	004944	B++ bbb	Stable Stable	B+ bbb-	Positive Positive	Pennsylvania
⬆️⬆️	P	Lebanon Valley Insurance Company <i>Tuscarora Wayne Mutual Group, Inc.</i>	000557	B++ bbb	Stable Positive	B++ bbb	Stable Stable	Pennsylvania
—	P	Medicus Insurance Company <i>NORCAL Mutual Insurance Company</i>	013758	A- u a- u	Developing Developing	A u a u	Negative Negative	Texas
—	P	Medmarc Casualty Insurance Company <i>ProAssurance Corporation</i>	002216	A a+	Stable Negative	A+ aa-	Negative Negative	Vermont
⊕	P	Members Insurance Company <i>The Auto Club Group</i>	013811	A- a-	Stable Stable	B++ u bbb+ u	Positive Positive	North Carolina
⬆️⬆️	P	Midwest Family Advantage Insurance Co <i>Midwest Family Mutual Insurance Company</i>	020590	A- a-	Positive Positive	A- a-	Stable Stable	Iowa

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

Rating Action	Business Type	Company Name/ Ultimate Parent	AMB#	Current		Previous		Domicile
				FSR ICR	Outlook/ Implications	FSR ICR	Outlook/ Implications	
U.S., CANADA AND BERMUDA PROPERTY/CASUALTY (CONTINUED)								
↕	P	Midwest Family Mutual Insurance Company <i>Midwest Family Mutual Insurance Company</i>	002327	A- a-	Positive Positive	A- a-	Stable Stable	Iowa
🚩	P	National Lloyds Insurance Company <i>Hilltop Holdings Inc.</i>	003238	A u a u	Developing Developing	A a	Negative Negative	Texas
—	P	Noetic Specialty Insurance Company <i>ProAssurance Corporation</i>	012468	A a+	Stable Negative	A+ aa-	Negative Negative	Vermont
—	P	NORCAL Mutual Insurance Company <i>NORCAL Mutual Insurance Company</i>	003644	A- u a- u	Developing Developing	A u a u	Negative Negative	California
—	P	NORCAL Specialty Insurance Company <i>NORCAL Mutual Insurance Company</i>	003744	A- u a- u	Developing Developing	A u a u	Negative Negative	Texas
↕	P	Northwest G. F. Mutual Insurance Company	000717	B++ bbb	Stable Positive	B++ bbb	Stable Stable	South Dakota
↕	P	Oklahoma Farm Bureau Mutual Insurance Co <i>Oklahoma Farm Bureau Mutual Insurance Co</i>	000732	B++ bbb	Stable Positive	B++ bbb	Stable Stable	Oklahoma
🚩	P	PACO Assurance Company, Inc.	011823	NR nr		A- a-	Stable Stable	Illinois
—	P	Peleus Insurance Company <i>Argo Group International Holdings, Ltd</i>	011035	A- a-	Negative Negative	A u a u	Negative Negative	Virginia
—	P	Preferred Physicians Med RRG, Mut Ins Co <i>NORCAL Mutual Insurance Company</i>	011056	A- u a- u	Developing Developing	A u a u	Negative Negative	Missouri
—	P	ProAssurance American Mutual, A RRG <i>ProAssurance Corporation</i>	022383	A a+	Stable Negative	A+ aa-	Negative Negative	District Of Columbia
—	P	ProAssurance Casualty Company <i>ProAssurance Corporation</i>	002698	A a+	Stable Negative	A+ aa-	Negative Negative	Michigan
—	P	ProAssurance Indemnity Company, Inc. <i>ProAssurance Corporation</i>	003826	A a+	Stable Negative	A+ aa-	Negative Negative	Alabama
—	P	ProAssurance Insurance Co of America <i>ProAssurance Corporation</i>	001832	A a+	Stable Negative	A+ aa-	Negative Negative	Illinois
—	P	ProAssurance Specialty Insurance Co Inc <i>ProAssurance Corporation</i>	011697	A a+	Stable Negative	A+ aa-	Negative Negative	Alabama
New	P	Rider Insurance Company <i>Palisades Safety and Insurance Assn</i>	011504	A- a-	Stable Stable	NR nr		New Jersey
New	P	Rockingham Specialty, Inc. <i>Rockingham Mutual Group, Inc.</i>	020785	A a	Stable Stable	NR nr		Virginia
—	P	Rockwood Casualty Insurance Company <i>Argo Group International Holdings, Ltd</i>	002723	A- a-	Negative Negative	A u a u	Negative Negative	Pennsylvania
🚩	P	Select Markets Insurance Company <i>Argo Group International Holdings, Ltd</i>	002057	NR nr		A u a u	Negative Negative	Illinois
—	P	Somerset Casualty Insurance Company <i>Argo Group International Holdings, Ltd</i>	012126	A- a-	Negative Negative	A u a u	Negative Negative	Pennsylvania
↕	P	Sutter Insurance Company <i>Dibill, Inc.</i>	003623	B++ bbb+	Positive Positive	B++ bbb+	Stable Stable	California
New	P	Trisura Insurance Company <i>Trisura Group Ltd.</i>	020786	A- a-	Stable Stable	NR nr		Oklahoma
☑	P	Universal Insurance Company (NC) <i>The Auto Club Group</i>	003680	B++ bbb	Stable Stable	B++ u bbb u	Positive Positive	North Carolina
EUROPE, MIDDLE EAST AND AFRICA								
—	P	ArgoGlobal SE <i>Argo Group International Holdings, Ltd</i>	091791	A- a-	Negative Negative	A u a u	Negative Negative	Malta
New	P	Cie française d'asr pour le comm ext <i>Coface SA</i>	084823	A a	Stable Stable	NR nr		France
New	P	Coface Re SA <i>Coface SA</i>	088258	A a	Stable Stable	NR nr		Switzerland

Rating Action: (↕) Upgrade; (—) Downgrade; (New) Initial Rating; (🚩) Under Review; (↕) Change in Outlook; (🚩) Rating Withdrawal; (☑) Rating Affirmation.
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				FSR ICR	Outlook/ Implications	FSR ICR	Outlook/ Implications	
EUROPE, MIDDLE EAST AND AFRICA (CONTINUED)								
↕	L	Halyk-Life, Life Insurance Subsidiary Co <i>Holding Group Almex JSC</i>	091331	B+ bbb-	Positive Positive	B+ bbb-	Stable Stable	Kazakhstan
New	P	Jacana Re Limited <i>BHL Holdings Limited</i>	076307	A a	Stable Stable			Guernsey
↕	C	Jordan Insurance Company Plc.	088866	B bb+	Stable Stable	B bb+	Stable Negative	Jordan
New	C	Kuwait Insurance Company S.A.K.P.	085576	A- a-	Stable Stable	NR nr		Kuwait
↔	P	LocalTapiola General Mutual Ins Co	085429	NR nr		A a	Stable Positive	Finland
🇦🇪	C	Noor Takaful Family PJSC <i>Noor Investment Group LLC</i>	090644	B u bb u	Developing Developing	B bb	Stable Positive	United Arab Emirates
🇦🇪	P	Noor Takaful General PJSC <i>Noor Investment Group LLC</i>	090591	B u bb u	Developing Developing	B bb	Stable Positive	United Arab Emirates
↕	P	Qatar General Insurance & Reins Co QPSC <i>Qatar General Insurance & Reins Co QPSC</i>	085452	A- a-	Negative Negative	A- a-	Stable Stable	Qatar
New	C	Takaful International Co BSC <i>Gulf Insurance Group K.S.C.P.</i>	090250	A- a-	Stable Stable	NR nr		Bahrain
ASIA PACIFIC								
—	P	Adamjee Insurance Company Limited <i>Adamjee Insurance Company Limited</i>	085699	B bb+	Stable Stable	B+ bbb-	Stable Stable	Pakistan
↕	C	General Insurance Corporation of India <i>General Insurance Corporation of India</i>	086041	A- a-	Negative Negative	A- a-	Stable Stable	India
🇰🇷	P	Hanwha General Insurance Company Ltd <i>Hanwha Life Insurance Co., Ltd.</i>	086796	A u a u	Negative Negative	A a	Stable Stable	South Korea
↕	P	New India Assurance Company Limited <i>New India Assurance Company Limited</i>	086043	A- a-	Negative Negative	A- a-	Stable Stable	India
CARIBBEAN AND LATIN AMERICA								
☑	C	Austral Resseguradora S.A. <i>Austral Participações S.A.</i>	092459	B++ bbb+	Positive Positive	B++ u bbb+ u	Developing Developing	Brazil
☑	P	Austral Seguradora S.A. <i>Austral Participações S.A.</i>	092493	B++ bbb+	Positive Positive	B++ u bbb+ u	Developing Developing	Brazil
New	C	London Life & Casualty Reinsurance Corp <i>Great-West Lifeco Inc</i>	086037	A+ aa	Stable Stable	NR nr		Barbados
🇧🇧	P	Ocean International Reinsurance Co Ltd	093077	A- u a- u	Developing Developing	A- a-	Stable Stable	Barbados
New	P	Virginia Surety Seguros de México, SA CV <i>Assurant, Inc.</i>	095962	A- a-	Stable Stable	NR nr		Mexico

Holding Companies

Rating Action	Company Name	AMB#	Current		Previous		Domicile
			ICR	Outlook/ Implications	ICR	Outlook/ Implications	
—	Argo Group International Holdings, Ltd	058448	bbb-	Negative	bbb u	Negative	Bermuda
—	Argo Group US, Inc.	058324	bbb-	Negative	bbb u	Negative	Delaware
⊕	Principal Financial Group Inc	058179	a	Stable	a-	Positive	Delaware
—	ProAssurance Corporation	050660	bbb+	Negative	a-	Negative	Delaware

Rating Action: (⊕) Upgrade; (—) Downgrade; (New) Initial Rating; (🇦🇪) Under Review; (↕) Change in Outlook; (↔) Rating Withdrawal; (☑) Rating Affirmation.

Outlook: Positive, Negative, Stable. **Implications:** Positive, Negative, Developing. **Business Type:** P = Property/Casualty (Non-Life); L = Life; H = Health; T = Title; C = Composite.

BEST'S FINANCIAL STRENGTH RATING GUIDE – (FSR)

A Best's Financial Strength Rating (FSR) is an independent opinion of an insurer's financial strength and ability to meet its ongoing insurance policy and contract obligations. An FSR is not assigned to specific insurance policies or contracts and does not address any other risk, including, but not limited to, an insurer's claims-payment policies or procedures; the ability of the insurer to dispute or deny claims payment on grounds of misrepresentation or fraud; or any specific liability contractually borne by the policy or contract holder. An FSR is not a recommendation to purchase, hold or terminate any insurance policy, contract or any other financial obligation issued by an insurer, nor does it address the suitability of any particular policy or contract for a specific purpose or purchaser. In addition, an FSR may be displayed with a rating identifier, modifier or affiliation code that denotes a unique aspect of the opinion.

Best's Financial Strength Rating (FSR) Scale

Rating Categories	Rating Symbols	Rating Notches*	Category Definitions
Superior	A+	A++	Assigned to insurance companies that have, in our opinion, a superior ability to meet their ongoing insurance obligations.
Excellent	A	A-	Assigned to insurance companies that have, in our opinion, an excellent ability to meet their ongoing insurance obligations.
Good	B+	B++	Assigned to insurance companies that have, in our opinion, a good ability to meet their ongoing insurance obligations.
Fair	B	B-	Assigned to insurance companies that have, in our opinion, a fair ability to meet their ongoing insurance obligations. Financial strength is vulnerable to adverse changes in underwriting and economic conditions.
Marginal	C+	C++	Assigned to insurance companies that have, in our opinion, a marginal ability to meet their ongoing insurance obligations. Financial strength is vulnerable to adverse changes in underwriting and economic conditions.
Weak	C	C-	Assigned to insurance companies that have, in our opinion, a weak ability to meet their ongoing insurance obligations. Financial strength is very vulnerable to adverse changes in underwriting and economic conditions.
Poor	D	-	Assigned to insurance companies that have, in our opinion, a poor ability to meet their ongoing insurance obligations. Financial strength is extremely vulnerable to adverse changes in underwriting and economic conditions.

* Each Best's Financial Strength Rating Category from "A+" to "C" includes a Rating Notch to reflect a gradation of financial strength within the category. A Rating Notch is expressed with either a second plus "+," or a minus "-".

Financial Strength Non-Rating Designations

Designation Symbols	Designation Definitions
E	Status assigned to insurers that are publicly placed, via court order into conservation or rehabilitation, or the international equivalent, or in the absence of a court order, clear regulatory action has been taken to delay or otherwise limit policyholder payments.
F	Status assigned to insurers that are publicly placed via court order into liquidation after a finding of insolvency, or the international equivalent.
S	Status assigned to rated insurance companies to suspend the outstanding FSR when sudden and significant events impact operations and rating implications cannot be evaluated due to a lack of timely or adequate information; or in cases where continued maintenance of the previously published rating opinion is in violation of evolving regulatory requirements.
NR	Status assigned to insurance companies that are not rated; may include previously rated insurance companies or insurance companies that have never been rated by AM Best.

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

Financial Size Category

To enhance the usefulness of ratings, AM Best assigns each rated (A++ through D) insurance company a Financial Size Category (FSC). The FSC is based on adjusted policyholders' surplus (PHS) in U.S. dollars and may be impacted by foreign currency fluctuations. The FSC is designed to provide a convenient indicator of the size of a company in terms of its statutory surplus and related accounts.

Many insurance buyers only want to consider buying insurance coverage from companies that they believe have sufficient financial capacity to provide the necessary policy limits to insure their risks. Although companies utilize reinsurance to reduce their net retention on the policy limits they underwrite, many buyers still feel more comfortable buying from companies perceived to have greater financial capacity.

Class	Adj. PHS (\$ Millions)	Class	Adj. PHS (\$ Millions)
I	Less than 1	IX	250 to 500
II	1 to 2	X	500 to 750
III	2 to 5	XI	750 to 1,000
IV	5 to 10	XII	1,000 to 1,250
V	10 to 25	XIII	1,250 to 1,500
VI	25 to 50	XIV	1,500 to 2,000
VII	50 to 100	XV	2,000 or greater
VIII	100 to 250		

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GUIDE TO BEST'S ISSUER CREDIT RATINGS – (ICR)

A Best's Issuer Credit Rating (ICR) is an independent opinion of an entity's ability to meet its ongoing financial obligations and can be issued on either a long- or short-term basis. A Long-Term ICR is an opinion of an entity's ability to meet its ongoing senior financial obligations, while a Short-Term ICR is an opinion of an entity's ability to meet its ongoing financial obligations with original maturities generally less than one year. An ICR is an opinion regarding the relative future credit risk of an entity. Credit risk is the risk that an entity may not meet its contractual financial obligations as they come due. An ICR does not address any other risk. In addition, an ICR is not a recommendation to buy, sell or hold any securities, contracts or any other financial obligations, nor does it address the suitability of any particular financial obligation for a specific purpose or purchaser. An ICR may be displayed with a rating identifier or modifier that denotes a unique aspect of the opinion.

Best's Long-Term Issuer Credit Rating (Long-Term ICR) Scale

Rating Categories	Rating Symbols	Rating Notches*	Category Definitions
Exceptional	aaa	-	Assigned to entities that have, in our opinion, an exceptional ability to meet their ongoing senior financial obligations.
Superior	aa	aa+ / aa-	Assigned to entities that have, in our opinion, a superior ability to meet their ongoing senior financial obligations.
Excellent	a	a+ / a-	Assigned to entities that have, in our opinion, an excellent ability to meet their ongoing senior financial obligations.
Good	bbb	bbb+ / bbb-	Assigned to entities that have, in our opinion, a good ability to meet their ongoing senior financial obligations.
Fair	bb	bb+ / bb-	Assigned to entities that have, in our opinion, a fair ability to meet their ongoing senior financial obligations. Credit quality is vulnerable to adverse changes in industry and economic conditions.
Marginal	b	b+ / b-	Assigned to entities that have, in our opinion, a marginal ability to meet their ongoing senior financial obligations. Credit quality is vulnerable to adverse changes in industry and economic conditions.
Weak	ccc	ccc+ / ccc-	Assigned to entities that have, in our opinion, a weak ability to meet their ongoing senior financial obligations. Credit quality is vulnerable to adverse changes in industry and economic conditions.
Very Weak	cc	-	Assigned to entities that have, in our opinion, a very weak ability to meet their ongoing senior financial obligations. Credit quality is very vulnerable to adverse changes in industry and economic conditions.
Poor	c	-	Assigned to entities that have, in our opinion, a poor ability to meet their ongoing senior financial obligations. Credit quality is extremely vulnerable to adverse changes in industry and economic conditions.

* Best's Long-Term Issuer Credit Rating Categories from "aa" to "ccc" include Rating Notches to reflect a gradation within the category to indicate whether credit quality is near the top or bottom of a particular Rating Category. Rating Notches are expressed with a "+" (plus) or "-" (minus).

Best's Short-Term Issuer Credit Rating (Short-Term ICR) Scale

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

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

Designation Symbols	Designation Definitions
d	Status assigned to entities (excluding insurers) that are in default or when a bankruptcy petition or similar action has been filed and made public.
e	Status assigned to insurers that are publicly placed, via court order into conservation or rehabilitation, or the international equivalent, or in the absence of a court order, clear regulatory action has been taken to delay or otherwise limit policyholder payments.
f	Status assigned to insurers that are publicly placed via court order into liquidation after a finding of insolvency, or the international equivalent.
s	Status assigned to rated entities to suspend the outstanding ICR when sudden and significant events impact operations and rating implications cannot be evaluated due to a lack of timely or adequate information; or in cases where continued maintenance of the previously published rating opinion is in violation of evolving regulatory requirements.
nr	Status assigned to entities that are not rated; may include previously rated entities or entities that have never been rated by AM Best.

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Animal House

Wild animals that somehow make their way into a home can wreak havoc. But most homeowners policies exclude coverage for damages caused by many of those uninvited guests.

by Lori Chordas

In December 2019, an Atlanta couple and their nine-month-old daughter returned home from a week-long vacation in California to discover their new house in shambles.

Kari Drees said in an interview on NBC's *Today* that she and her husband, Dustin, initially thought their home had been burglarized. But after discovering small paw prints, animal waste and a nest in their living room couch, they quickly realized the culprit was a squirrel that apparently had fallen through the chimney and gotten trapped in the home.

As the tiny, unwelcome rodent tried to free itself from the home, it scratched floors, damaged furniture and chewed baseboards and window and door frames, racking up more than \$15,000 in damages.

The family filed a homeowners claim with their insurance company, Mercury Insurance. But the claim was denied because "there was no coverage for an incident such as this one," said Christopher O'Rourke, vice president of homeowners claims for the Los Angeles-based insurer.

Like other carriers, Mercury Insurance's homeowners policies exclude structural and property damages caused by rodents, vermin, birds and insects, so the claim was denied, he said.

Damages to the contents of a home are "named perils," which cover only destruction from specified causes, said Donald Griffin, department vice president-personal lines for the American Property Casualty Insurance Association. "So the insured needs to show that a loss was due to something

'named' and covered in their policy," he said.

Damages to a home's structure are often classified as "all-risks" with specific exclusions for losses caused by small pests and insects. So repairs or cleanup caused by a chipmunk that takes up residence in an attic, or an infestation of carpenter ants that feast on a home's floorboards are specifically excluded in homeowners policies.

Griffin said there are some optional extensions of coverage.

Unlike smaller animals, structural damage to real property caused by larger animals such as deer, moose and bears are often covered by homeowners policies. However, damage to contents by those animals is excluded, he said.

Coverage may fall under a policy's dwelling protection, Allstate said in a post on its

website. Damage to structures not attached to a home, such as fences, sheds and detached garages, typically falls under "other structures" coverage and is not covered in most homeowners policies.

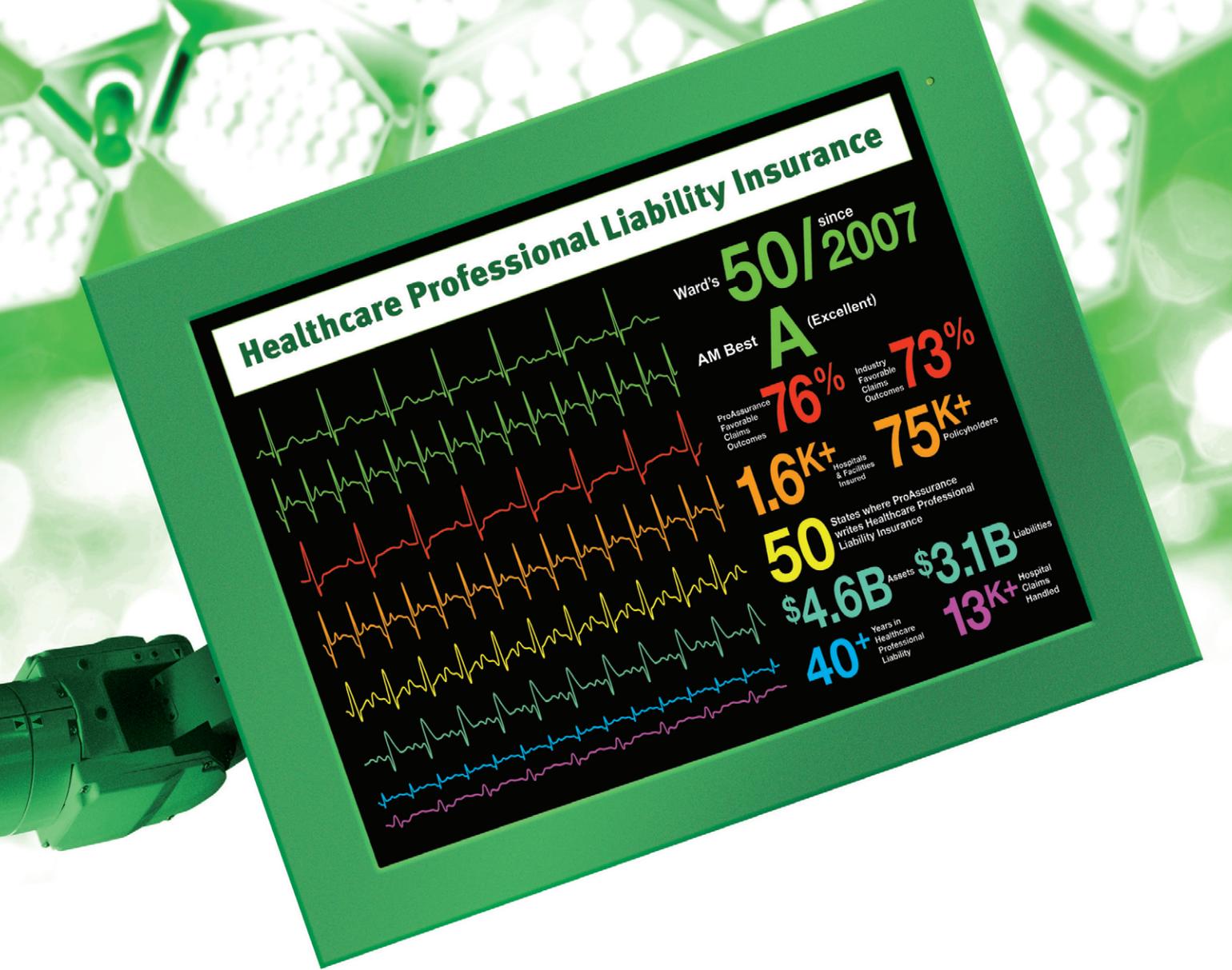
Over the years, homeowners insurers have seen only a small number of claims generated by wild animals. However, Griffin said there's often a small spike in those events during the winter months when animals seek shelter in warm homes.

While incidents like these are unusual, "it should serve as a reminder to all homeowners that they should familiarize themselves with their homeowners policies so there aren't any surprises," O'Rourke said. "If they have questions or don't understand something, I would encourage them to reach out to their agent, because they are the experts and can provide a lot of great information."



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

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