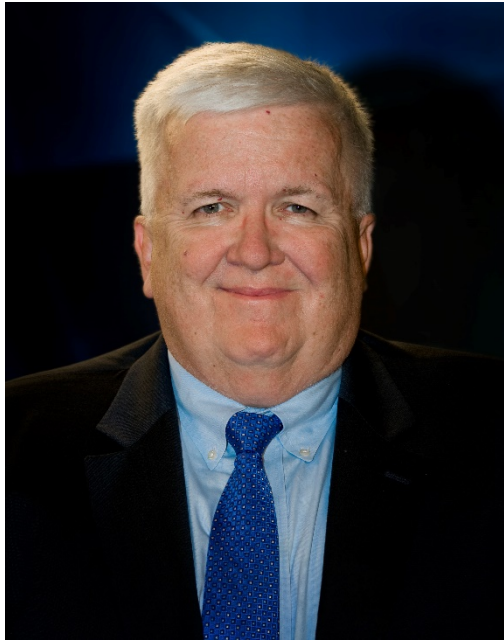


AM Best Update Webinar

John Andre – Managing Director, AM Best
Edin Imsirovic – Associate Director, AM Best
Tom Mount – Senior Director, AM Best

July 30, 2020





John Andre
Managing Director
AM Best



Edin Imsirovic
Associate Director
AM Best



Tom Mount
Senior Director
AM Best



Industry Outlook Changes

John Andre – Managing Director, AM Best



Market Segment Outlooks

- Examine the impact of current trends on companies operating in particular insurance segments over the next 12 months. Outlooks consider:
 - Current and forecasted economic conditions
 - Regulatory environment and potential changes
 - Emerging product developments
 - Competitive issues
- Like a Best Credit Rating, market segment outlooks can be positive, negative or stable
- Normally issued at the start of the calendar year
- Does not mean that all ratings operating in that segment will have the same rating outlook
- Companies often have characteristics that offset the issues related with the market segment outlooks

PC Rating Outlooks Timeline

- Broad rating outlooks released – Commercial Lines, Personal Lines and Reinsurance released late 2019/early 2020
- All three were stable at that time
- Personal lines outlook have been stable for a number of years
- Reinsurance went to stable in December 2018 after a few years at negative
- Commercial lines was stable but certain “sub-segments” were negative:
 - Commercial Auto
 - MPL
 - Professional Liability

Commercial Lines Rating Outlook Published in January 2020

Overall stable outlook driven by:

- Strong risk-adjusted capitalization and liquidity
- Pricing momentum in most lines
- Strong ERM
- Evolving use of innovation in underwriting and claims



COVID-19 Questionnaire – March 2020

- Current impact of COVID-19 on the company's operations:
 - How the company is conducting business
 - Impact on the financial position of the company (sales, claims, exclusions, underwriting and investment performance, liquidity draws, solvency, etc.)
- Changes to stress test scenarios that the company had previously modeled, and if the current (or anticipated) impact falls within risk appetite and tolerance
- Adjustments to 2020 financial projections and key assumption changes
- Update on any changes the company has made to product assumptions, internal stress testing and scenario or sensitivity analysis

COVID-19 Questionnaire – Responses

Business continuity plans effective

No updates to projections or assumptions ... yet

Current stress testing in line; strong capital and liquidity positions

Concern about legislative activism

Uncertainty the common theme



COVID-19 Stress Testing

- Conservative baseline stress test conducted globally
- Underwriting and asset sensitivity
 - Primarily an asset stress at this point for most companies
- Baseline did not require a data call
- Used to identify sensitivities
- Reviewed in concert with COVID-19 questionnaire

COVID-19 Stress Testing

Assets

- Bonds
- Mortgage loans
- Common stocks, real estate, alternative assets

Underwriting

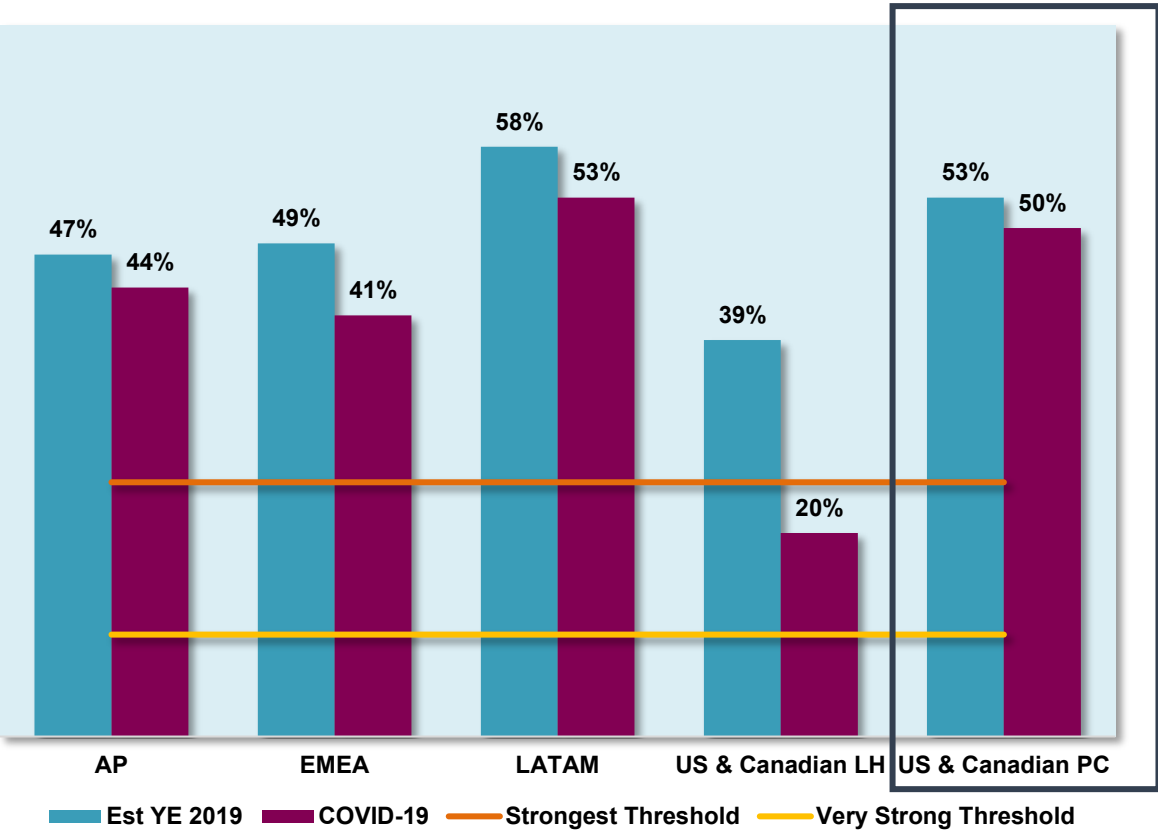
- Mortality
- Annuities
- Health
- Property/casualty

Available Capital

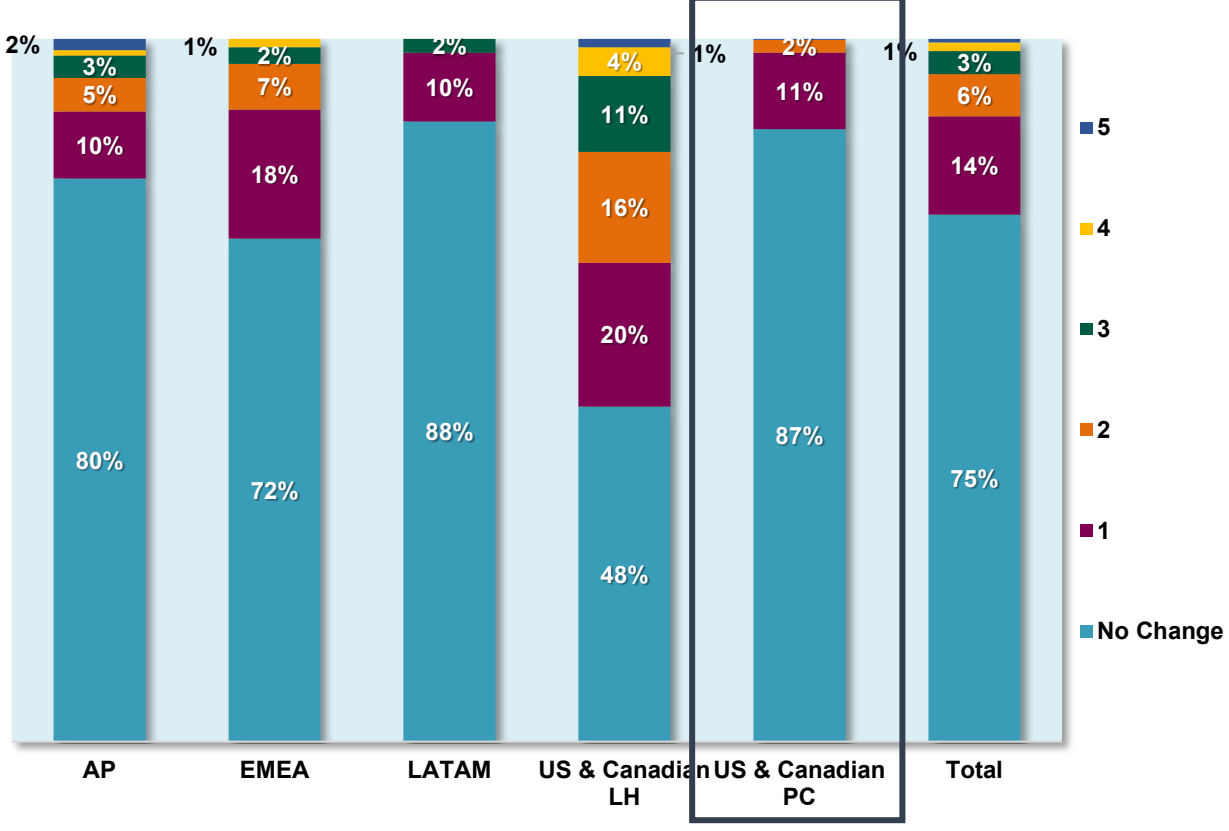
- Soft capital and treatment of hybrids

BCAR Stress Testing for COVID – Global View

Median BCAR Score



Change in BCAR Assessment

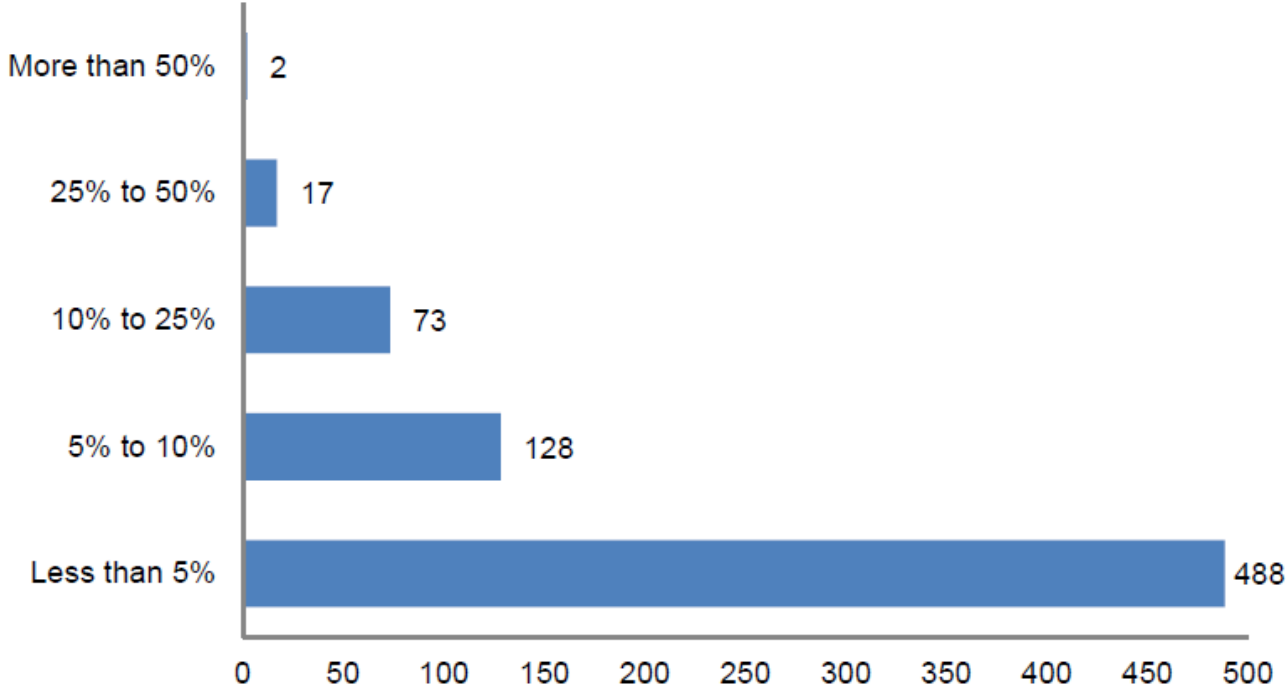


US insurance industry is well capitalized, and the rated insurers generally withstood the stress test

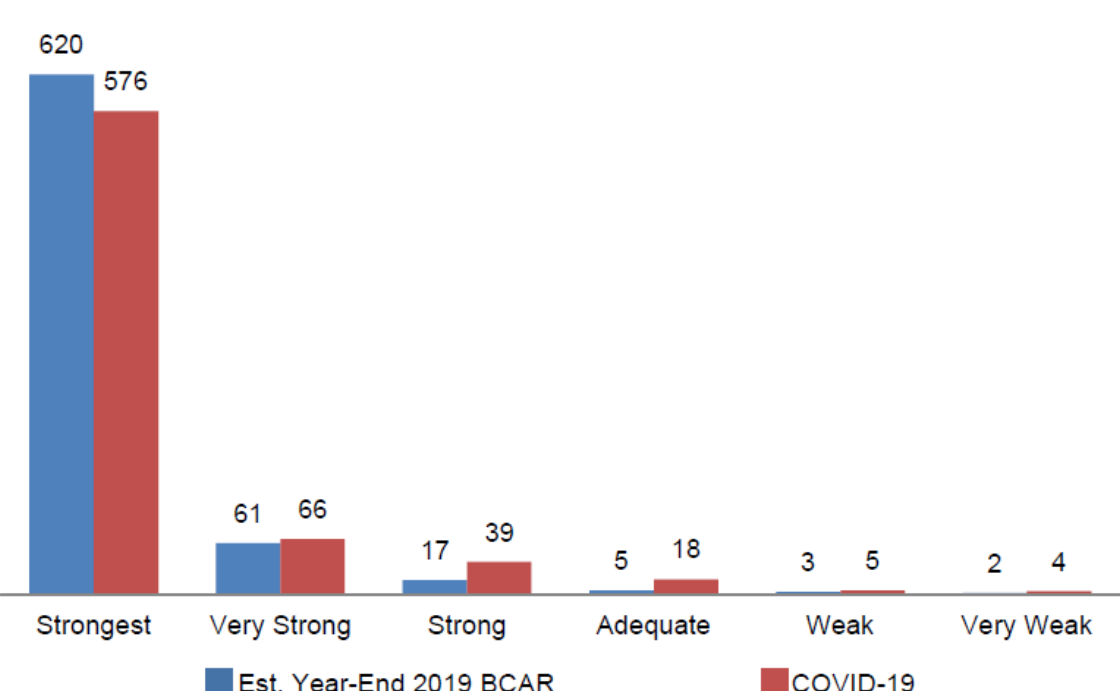


BCAR Stress Testing for COVID – US & CN P/C

US & Canada P/C – Decline in BCAR Assessment



US & Canada P/C – Change in BCAR Assessment



Business Interruption BCAR Stress Tests – US P/C

US PC Groups and Unaffiliated Singles Exposed to Business Interruption – BCAR Assessment Levels (%)

BCAR Assessment	Original Distribution	Distribution of Low End of Estimated Loss Range	Distribution of Midpoint of Estimated Loss Range	Distribution of High End of Estimated Loss Range
Strongest	82	62	47	32
Very Strong	10	14	17	15
Strong	3	11	14	17
Adequate	1	5	7	11
Weak	2	4	9	17
Very Weak	2	3	5	8
Total	100	100	100	100

Source: AM Best data and research

AM Best – Overall Balance Sheet Strength Assessment

Country Risk Tier	Combined Balance Sheet Assessment (Rating Unit/ Holding Company)	
	Strongest	Very Strong
Strongest	a+/a	a/a-
Very Strong	a-/bbb+	bbb+/bbb/bbb-
Strong	bb+/bb/bb-	b+ and below
Adequate		
Weak		
Very Weak		

Source: Best's Credit Rating Methodology



COVID Stress Test Results – US Property/Casualty Groups

Results	Key Exposures	BCAR/Liquidity	Status
<ul style="list-style-type: none">• BCARs generally declined 10%-15%• No credit for risk mitigation	<ul style="list-style-type: none">• Outsized equity or alternative asset exposures, concentrations in certain lines of business, and reputation	<ul style="list-style-type: none">• Capitalisation “Strongest,” benefitting from growth in absolute capital• Liquidity is strong• Good access to financial markets• Risk mitigation practices in place	<ul style="list-style-type: none">• At present, earnings expected to be affected by increased claims• Capital management practices in place (capital raising, buyback restrictions)• Close monitoring on future claims and reinterpretation of contract language

BCARs withstood the stress test – earnings likely to be impacted (materiality currently uncertain)



COVID Stress Testing Follow Up Steps Taken

Follow up Steps	Key Themes to Monitor
<ul style="list-style-type: none"> Deliberated on most impacted companies at rating committee 	<ul style="list-style-type: none"> Resurgence of pandemic
<ul style="list-style-type: none"> Investigate key drivers to refine BCAR 	<ul style="list-style-type: none"> Spikes in claims activity (event cancellation, workers' comp, credit, travel, BI, etc.)
<ul style="list-style-type: none"> Evaluate other balance sheet components (liquidity, access to capital, risk mitigation) 	<ul style="list-style-type: none"> Further deterioration in financial markets
<ul style="list-style-type: none"> Assess impact on other building blocks 	<ul style="list-style-type: none"> Business continuity issues
<ul style="list-style-type: none"> Maintain ongoing surveillance of <u>all</u> rating units 	<ul style="list-style-type: none"> Elevated liquidity strain
<ul style="list-style-type: none"> Refer to rating committee as required 	<ul style="list-style-type: none"> Reinterpretation of contract language
	<ul style="list-style-type: none"> Indirect exposures to other sectors

Liquidity Assessment

- Review of liquidity involves dialogue with insurers
 - Review cash needs the next 12-18 months at holding company
 - Understand drawdown of credit facilities, LOCs – update to leverage calcs
 - Examine company's own liquidity stress
- Companies reevaluating dividends and share repurchase
- Significant liquidity injected into the market by Fed and others

Rating Outlooks Revisited in March 2020

Personal lines outlook remained stable:

- Not as deeply impacted by socioeconomic issues as commercial lines
- Performance benefits from the stay at home orders
- Auto premium returns/credits have not offset the improvement in underwriting results
- Segment remains very well capitalized dominated by large national and regional mutual companies

Market Segment Outlook – US Personal Lines

Headwinds	Tailwinds
Elevated frequency & severity of weather patterns	Strong risk-adjusted capitalization
Potential reinsurance pricing pressures – particularly loss affected regions	On-going underwriting and pricing discipline
Evolving customer and agent expectations	Core property performance (excluding weather events)
Greater-than-expected operating impact from COVID-19	Ample reinsurance capacity – increased use of innovative/flexible structures
Continued equity market volatility	Advanced pricing sophistication

AM Best has maintained the **stable** Outlook on the Personal Lines sectors



COVID-19 Impact on Global Reinsurers

- COVID-19 has presented third party investors with a scenario where reinsurance as an asset class is correlated to other asset classes, making it less attractive
- Trapped capital likely to remain as uncertainty remains over potential claims, which likely will be longer tail
- COVID-19 losses will be:
 - Broad based, impacting multiple lines of business
 - Somewhat concentrated amongst top companies providing specialty covers where BI losses are covered

Market Segment Outlook – Global Reinsurance

Headwinds	Tailwinds
Uncertainty on potential reinsured losses	Initial losses manageable
Continued volatility in investment portfolios	Flight to quality
Low interest rate environment	Reduced third party capital appetite – more discipline from traditional capital
Economic recessionary pressures	Demand for improved turns and conditions – more exclusions
Uncertainty of future demand for coverage	Strong balance sheets/Economic Stimulus packages
Unknown government intervention (retroactive coverage)	Permanence of traditional capital

AM Best has maintained the outlook on the Global Reinsurance sector at **stable**



Rating Outlooks Revisited in March 2020

- Commercial lines outlook moved to from stable to negative
 - All the published commercial sub-segments moved to a negative rating outlook
 - Driven by the unforeseen length and depth of COVID-19 issues and the macroeconomic fallout of the physical distancing guidelines established (and later re-established) to slow the spread
 - Initial commercial claims directly driven by the pandemic largely limited to:
 - Event cancellation
 - Travel Insurance products
 - Limited cases of BI or CBI

Market Segment Outlook – US Commercial Lines March 2020

Headwinds	Tailwinds
Economic conditions driving lower premiums and subsequently earnings	Solid risk-adjusted capitalization and liquidity
Impact of lower asset values on capital and surplus	Rates had been increasing pre-COVID crisis
Lower than expected interest rates for the foreseeable future	Potential for reduced loss exposures
Elevated “Other Liability” losses	Enhanced underwriting and ERM tools driven by innovation
Potential Business Interruption losses	

AM Best revised the **stable** Outlook on the US Commercial Lines Segment to **negative**



Change in Sub-Segment Outlooks – US Commercial Lines

Segment	Outlook
Workers Compensation	Negative
Excess & Surplus Lines	Negative
Commercial Auto	Negative
Professional Liability	Negative
Medical Professional Liability	Negative
Title	Negative
Surety	Negative

Commercial Auto – Negative Sub-Segment Outlooks Updated

- Has been negative since 2017
 - Inadequate pricing – 2019 Underwriting results worse in 10 years
 - Continued adverse reserve development, continues at first quarter 2020
 - Increases in current accident year loss ratios
 - Nuclear claims verdicts
 - Social inflation and litigation financing impacts
- Pandemic impact
 - Short term favorable impact from “shelter-in-place” requirements
 - Severity impact from easing of safety requirements
 - Frequency has declined but severity increased as vehicles are colliding at higher speeds
 - YOY DPW increase just 2% at March 31, 2020

Medical Professional Liability (MPL) – Negative Sub-Segment Outlooks Updated

- Has been negative since late 2017
 - Depressed demand
 - Diminishing reserve redundancies
 - Concerns over rate adequacy amid rising loss cost trends and social inflation
- Pandemic losses added more uncertainty with claims related to:
 - Overstretched resources
 - Medical professionals operating outside their normal scope
 - Equipment shortages
 - Telemedicine failure to diagnose
 - Evolving use of innovation in underwriting and claims
 - Delays in non-pandemic related medical treatments
- Some state and federal immunity for healthcare providers but challenges will persist

Professional Liability – Negative Sub-Segment Outlooks Updated

- Negative outlook first assigned in early 2020
 - D+O segment impacted by social inflation, especially the rising cost of litigation
 - Event-driven exposures driving securities and derivative claims
 - All time high in class action suits
 - Impact of cyber issues/new data protection laws
 - Harassment lawsuits/age discrimination impacting the EPL segment
 - Rate increases started in earnest but exposures constantly evolve
- Pandemic impact
 - More security class actions and shareholder derivative claims related to affirmative acts of mismanagement or failure to disclose by directors and officers in response to the outbreak

Workers' Compensation – Negative Sub-Segment Outlooks Assigned

- Negative outlook assigned in late March 2020
 - Pandemic impact on economic conditions on all sizes of business
 - High unemployment and sharp decline in GDP expected
 - Investment market volatility
 - Unknown claims exposure from first responders and other essential workers
 - Pressure had existed pre-COVID-19 on earnings from rate decreases in many states
 - Burden of proof on insurers regarding COVID-19 related claims
 - Average COVID-19 claims lower to date than non-COVID-19. Could change as states eventually reopen and stay open. Next wave could bring more.
- Offsetting factors
 - Frequency had been declining
 - Sector is well capitalized
 - Efforts to improve workplace safety

Surety – Negative Sub-Segment Outlooks Assigned

- Negative outlook assigned in late March 2020
 - Concerns for impact of COVID-19 on the construction industry and overall economy
 - Supply chain impact on material costs and availability
 - Mixed versions of state-based “stay at home” orders impacted non-essential construction
 - When backlogs subside, expect lower levels of new construction resulting in increased contractor defaults
 - More delays in the approval of the \$2 billion infrastructure spending bill
 - Economic downturns impacted other bond classes – customs and license and permit
 - More delays in the approval of the \$2 billion infrastructure spending bill

Excess and Surplus Lines – Negative Sub-Segment Outlooks Assigned

- Negative outlook assigned in late March 2020
 - Impact to sector growth from the contraction in the economy
 - Direct link between a healthy economy and need for E+S products
 - Decline in demand from contractors, commercial business, manufacturing and construction
 - Concerns for decreased UW cash flow, higher frequency and severity, and BI
 - Coverage creep
- Subsequent Observations
 - The E+S market has been resilient to date
 - Hard market conditions persist with strong pricing and policy terms
 - Some slow down into early April
 - Stamping office results strong – largely rate driven
 - Continued concern for top line due to pressures on artisan contractors and main street small business

Title – Negative Sub-Segment Outlooks Assigned

- Negative outlook assigned in late March 2020
 - Impact of the economic slowdown on employment, small business, housing, lending and consumer confidence
 - Despite low interest rates, concerns for slow downs in refinancing and new home sales
 - GDP decline which could be -8% according to the IMF
 - “Stay at home” orders impacting purchases
- Subsequent observations
 - Decline in new sales offset by refinancing
 - Refinancing impacted though by slowdown of county recorders keeping up with transactions
 - Housing inventory relatively flat
 - Home and material prices steady or slightly higher depending on the region

Recent Rating Activity

- Very few rating actions as a direct result of the COVID-19 pandemic to date
 - PC ratings passed the stress test – most of the issues
 - Some LH companies still being studied
- Commercial lines sub-segment outlooks have occasionally slowed upgrades and rating outlooks
- Pandemic issues have on occasion been a contributing factor to a negative rating action
 - Upgrades have occurred for personal lines companies and for very few commercial writers who have characteristics that offset the market challenges
 - Challenges for companies will be more evident throughout the remainder of the year

Industry Reserve Development and BCAR Changes

Tom Mount – Senior Director, AM Best
ACAS, MAAA, CERA, CEEM



Industry Reserves at YE 2019

Estimated Loss & DCC Reserve Adequacy By Line of Business

Including Statutory Discount:

Product Line	Original Estimated Reserve Deficiency @ 12/19 (\$B)	Current Estimated Reserve Deficiency @ 12/19 (\$B)
Other/Products Liability	9.9	12.6
Workers' Compensation	11.3	8.1
Commercial Auto Liability	4.3	3.1
Reinsurance - Nonprop Assumed	2.7	1.7
Commercial Multiple Peril	1.1	0.5
Homeowners	-0.5	-0.2
Personal Auto Liability	-1.3	-0.3
Medical Professional Liability	-1.0	-1.9
All Other Lines	-4.5	-3.9
Total Core Reserves	22.0	19.7
Asbestos & Environmental	11.7	11.7
Total	33.7	31.4



Industry Reserves at YE 2019

Estimated Loss & DCC Reserve Adequacy By Line of Business

Including Statutory Discount:

Product Line	Original Estimated Reserve Deficiency @ 12/19 (\$B)	Current Estimated Reserve Deficiency @ 12/19 (\$B)	Current Estimated Reserve Deficiency @ 12/19 (%)	Current Adjusted Reserve @ 12/19 (\$B)
Other/Products Liability	9.9	12.6	8.7%	144.3
Workers' Compensation	11.3	8.1	5.4%	151.0
Commercial Auto Liability	4.3	3.1	7.8%	39.7
Reinsurance - Nonprop Assumed	2.7	1.7	4.2%	40.3
Commercial Multiple Peril	1.1	0.5	1.3%	39.4
Homeowners	-0.5	-0.2	-0.8%	26.7
Personal Auto Liability	-1.3	-0.3	-0.2%	124.0
Medical Professional Liability	-1.0	-1.9	-7.5%	25.3
All Other Lines	-4.5	-3.9	-8.6%	45.3
Total Core Reserves	22.0	19.7	3.1%	636.0
Asbestos & Environmental	11.7	11.7	50.4%	23.2
Total	33.7	31.4	4.8%	659.2



Industry Reserves at YE 2019

Estimated Loss & DCC Reserve Adequacy By Line of Business

Excluding Statutory Discount:

Product Line	Original Estimated Reserve Deficiency @ 12/19 (\$B)	Current Estimated Reserve Deficiency @ 12/19 (\$B)
Other/Products Liability	8.5	11.3
Workers' Compensation	-4.7	-6.7
Commercial Auto Liability	4.0	2.8
Reinsurance - Nonprop Assumed	1.8	0.8
Commercial Multiple Peril	1.1	0.7
Homeowners	-0.5	-0.2
Personal Auto Liability	-1.9	-0.5
Medical Professional Liability	-1.5	-2.3
All Other Lines	-5.3	-4.7
Total Core Reserves	1.5	1.2
Asbestos & Environmental	11.7	11.7
Total	13.2	12.9



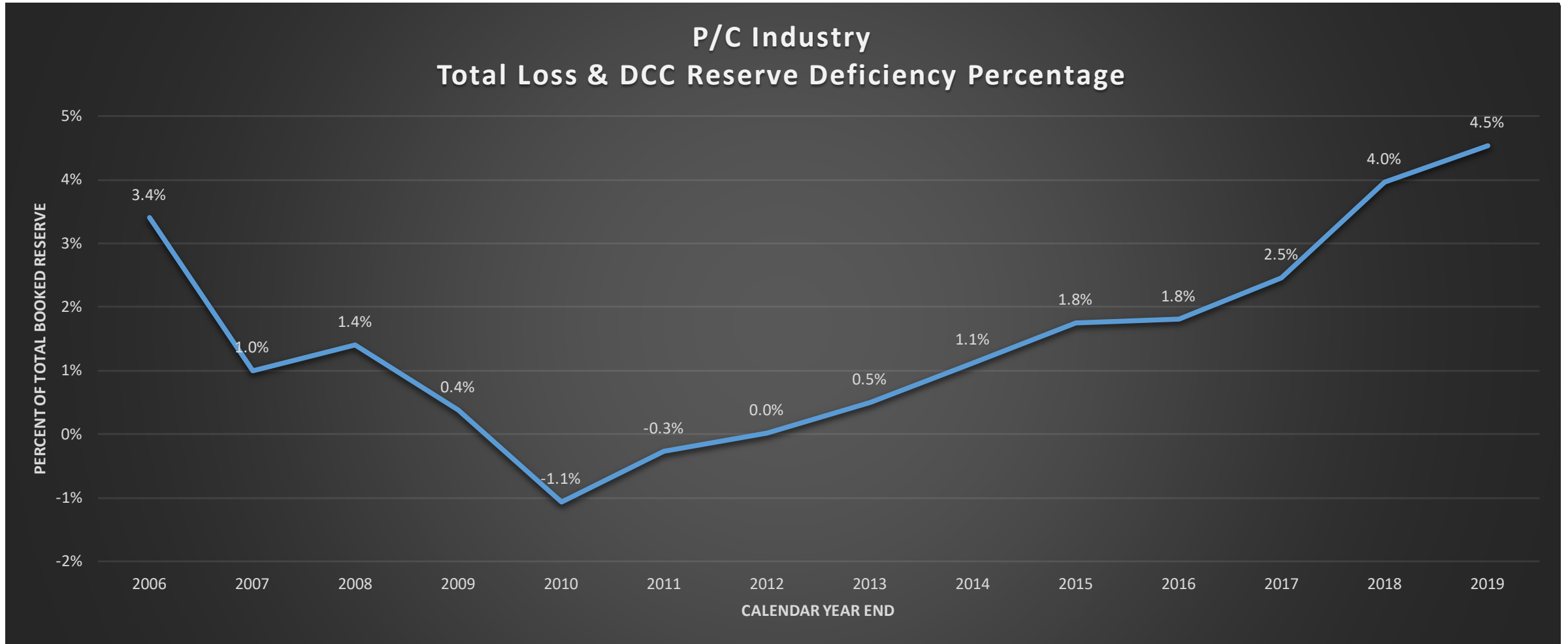
Industry Reserves at YE 2019

Estimated Loss & DCC Reserve Adequacy By Line of Business

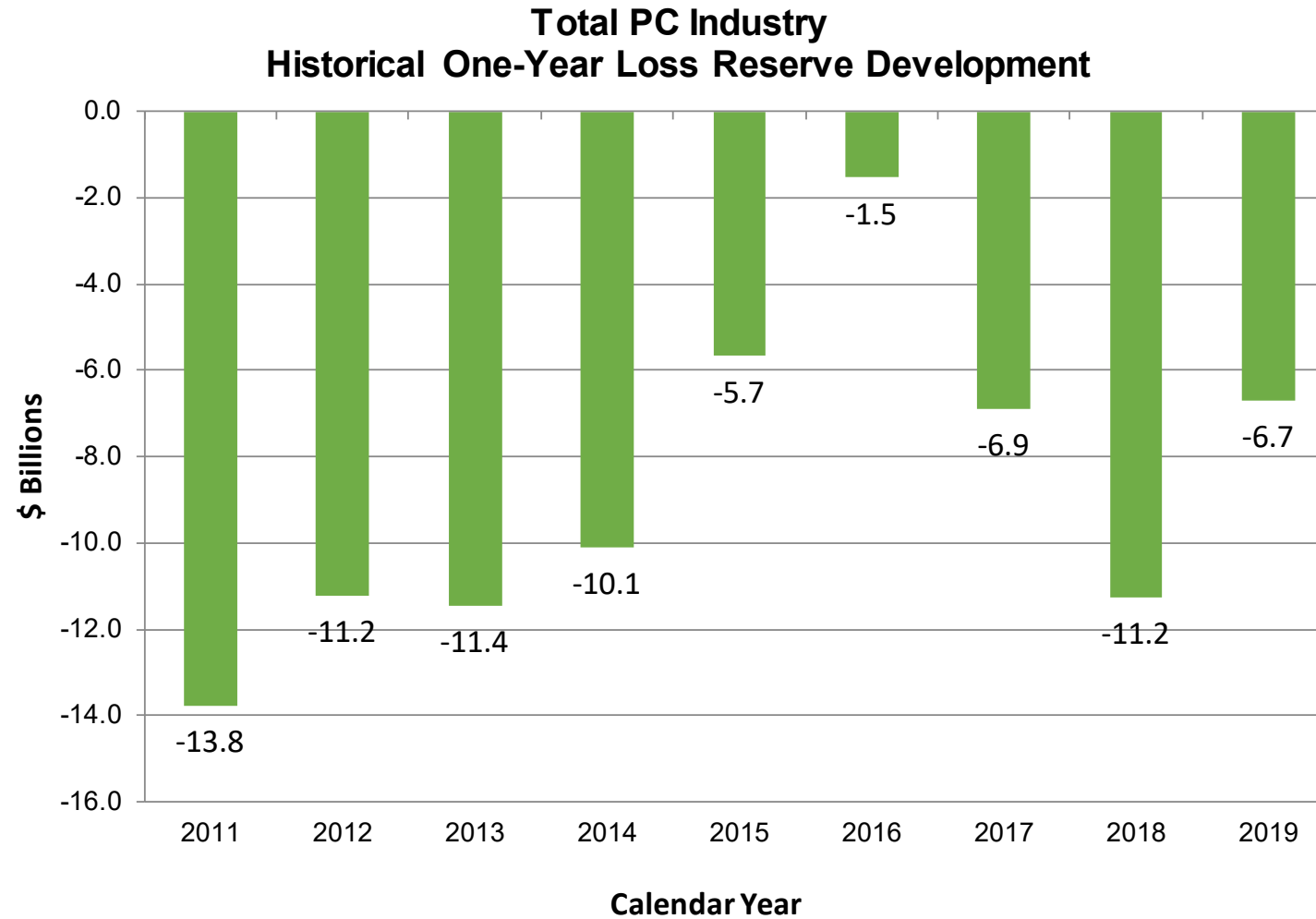
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Workers' Compensation	-4.7	-6.7	-4.4%	151.0
Commercial Auto Liability	4.0	2.8	7.1%	39.7
Reinsurance - Nonprop Assumed	1.8	0.8	2.0%	40.3
Commercial Multiple Peril	1.1	0.7	1.8%	39.4
Homeowners	-0.5	-0.2	-0.8%	26.7
Personal Auto Liability	-1.9	-0.5	-0.4%	124.0
Medical Professional Liability	-1.5	-2.3	-9.1%	25.3
All Other Lines	-5.3	-4.7	-10.4%	45.3
Total Core Reserves	1.5	1.2	0.2%	636.0
Asbestos & Environmental	11.7	11.7	50.4%	23.2
Total	13.2	12.9	2.0%	659.2



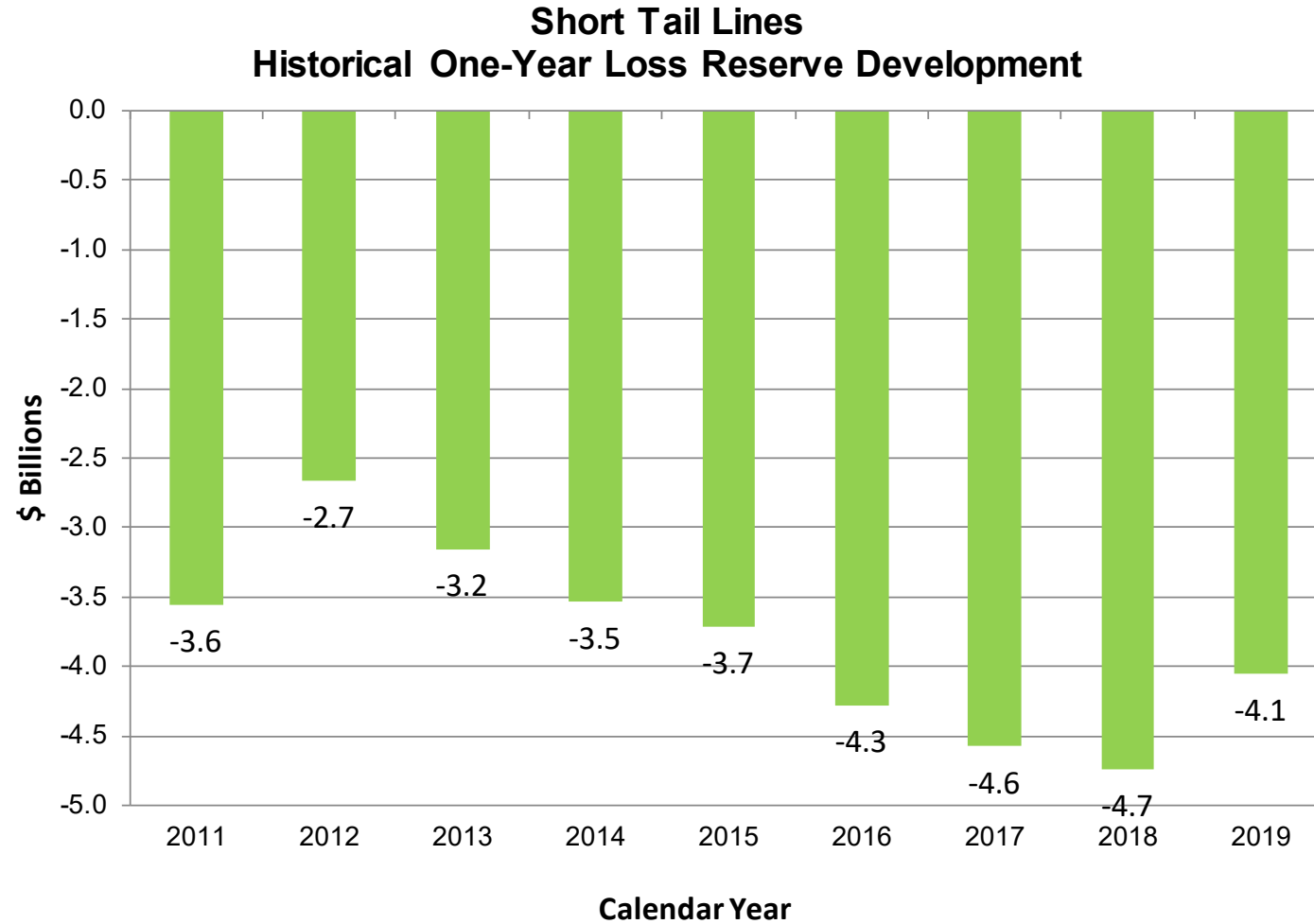
Industry Reserves at YE 2019



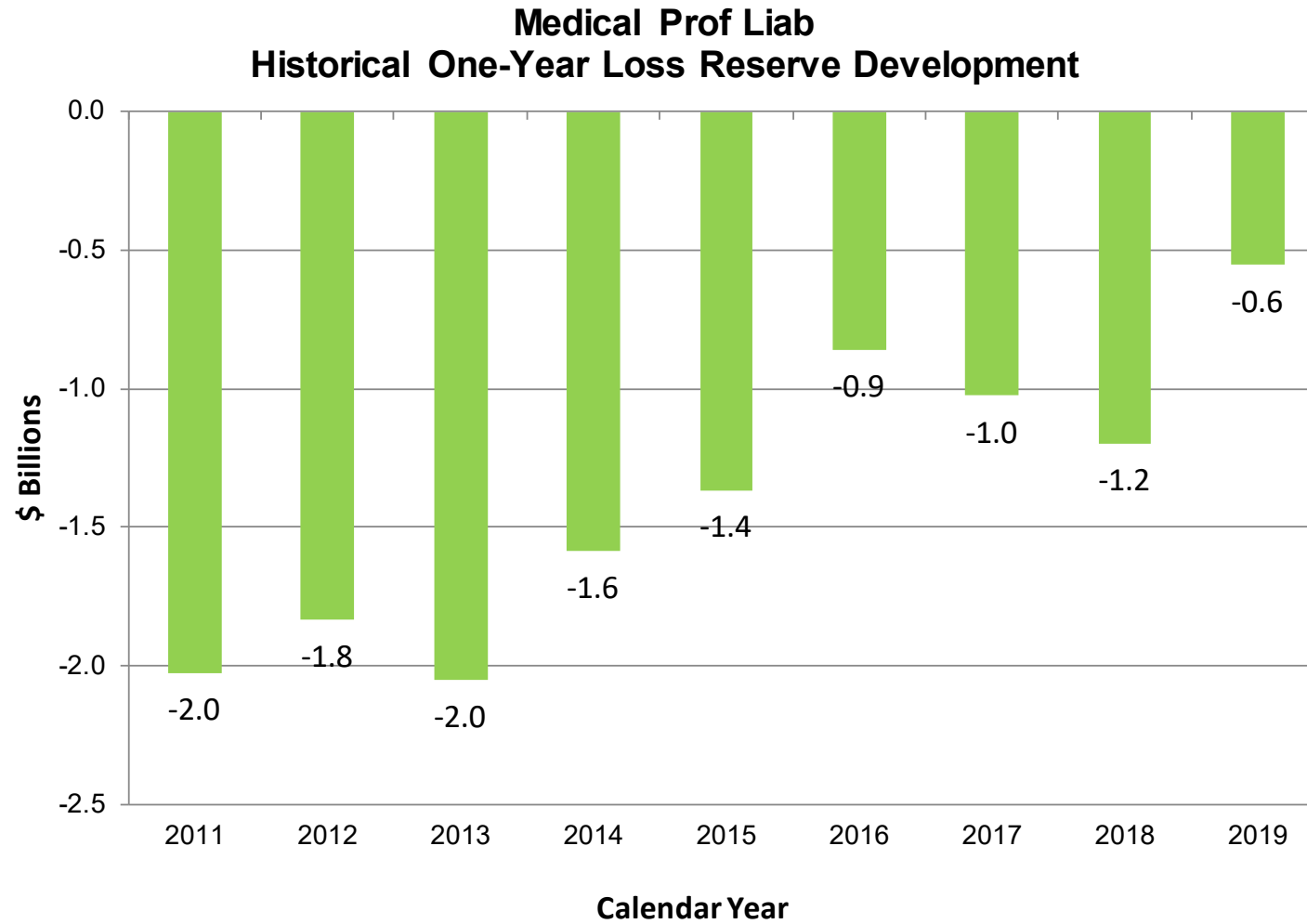
Industry Reserve Runoff



Industry Reserve Runoff



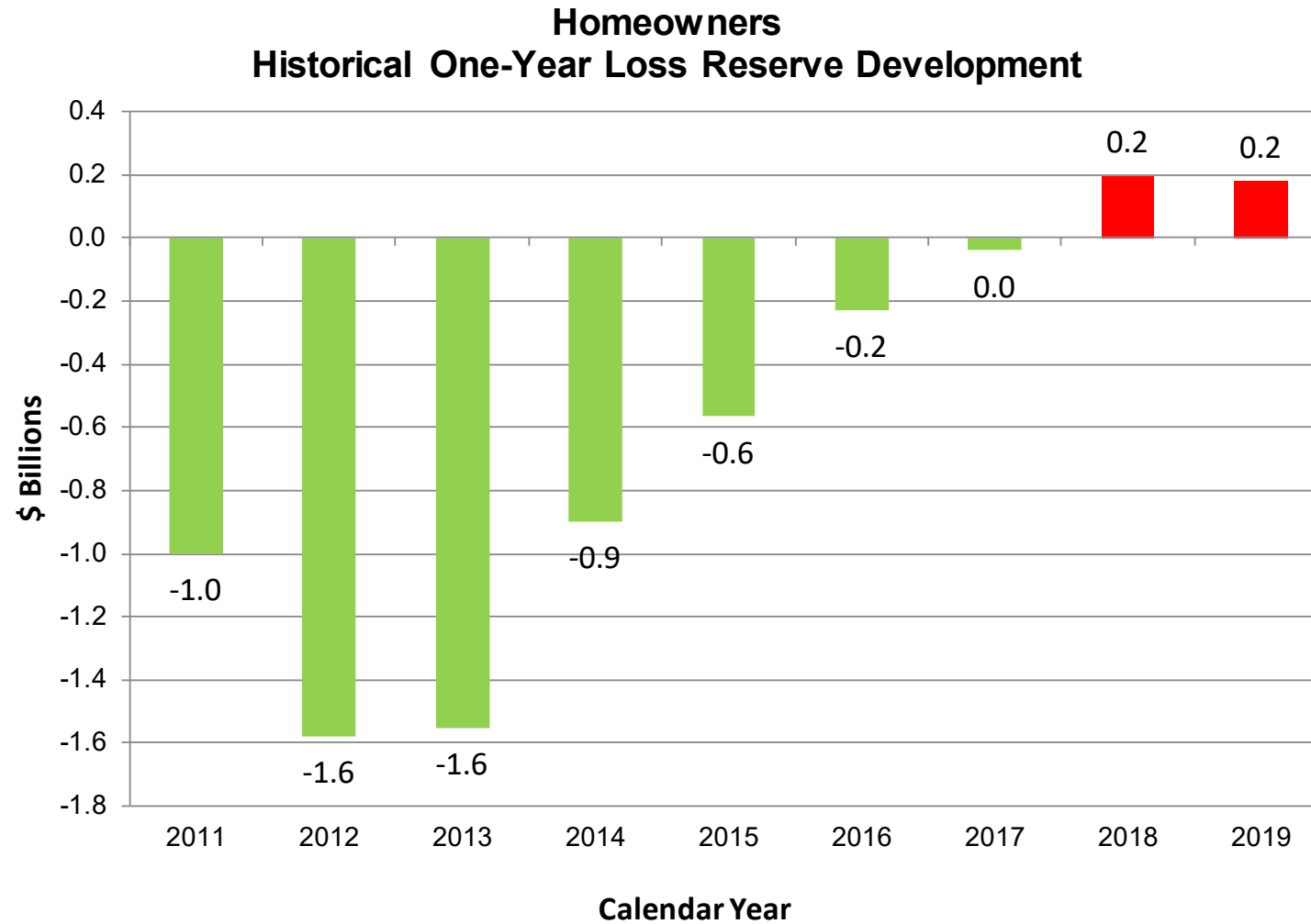
Industry Reserve Runoff



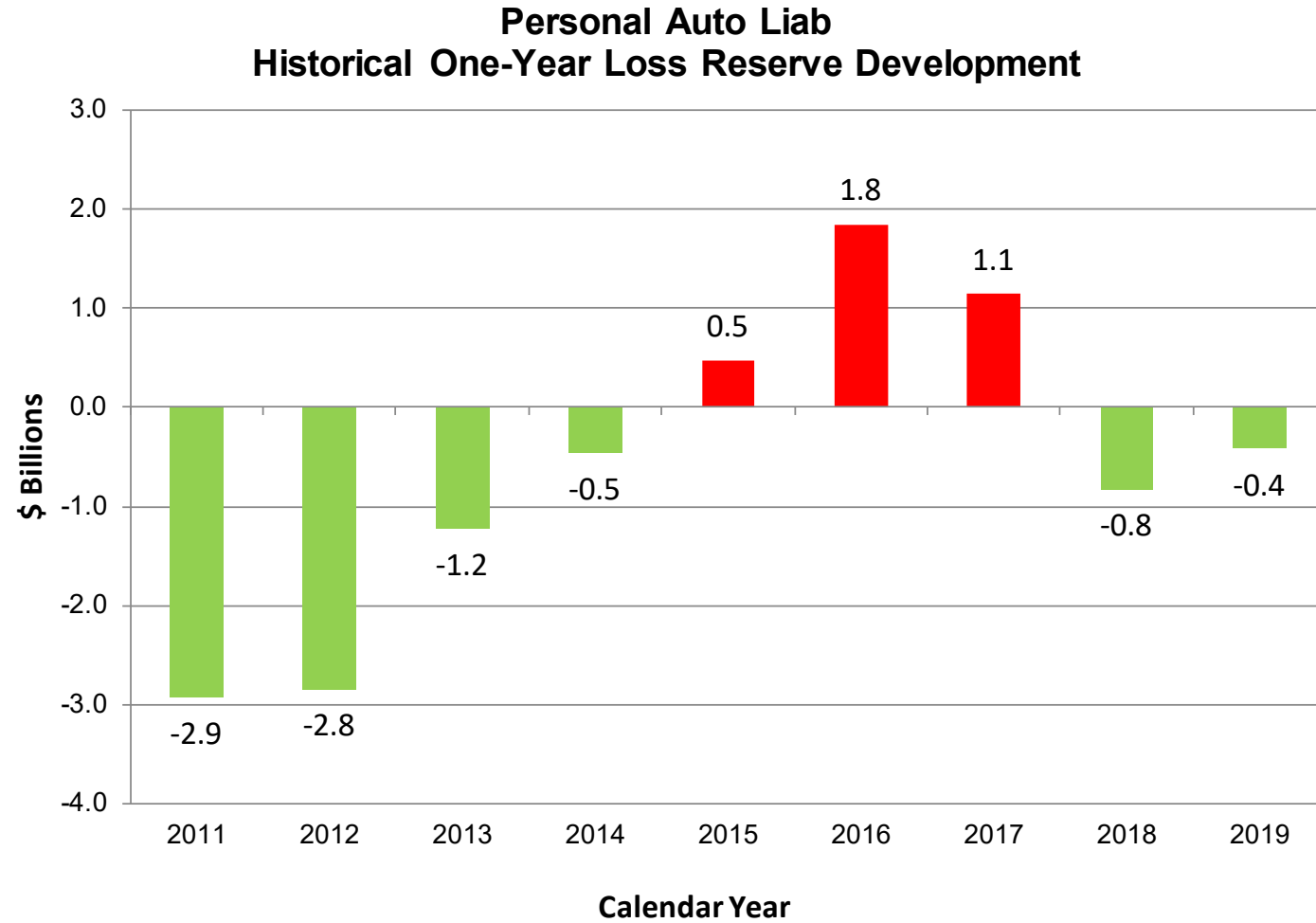
Industry Reserve Runoff



Industry Reserve Runoff

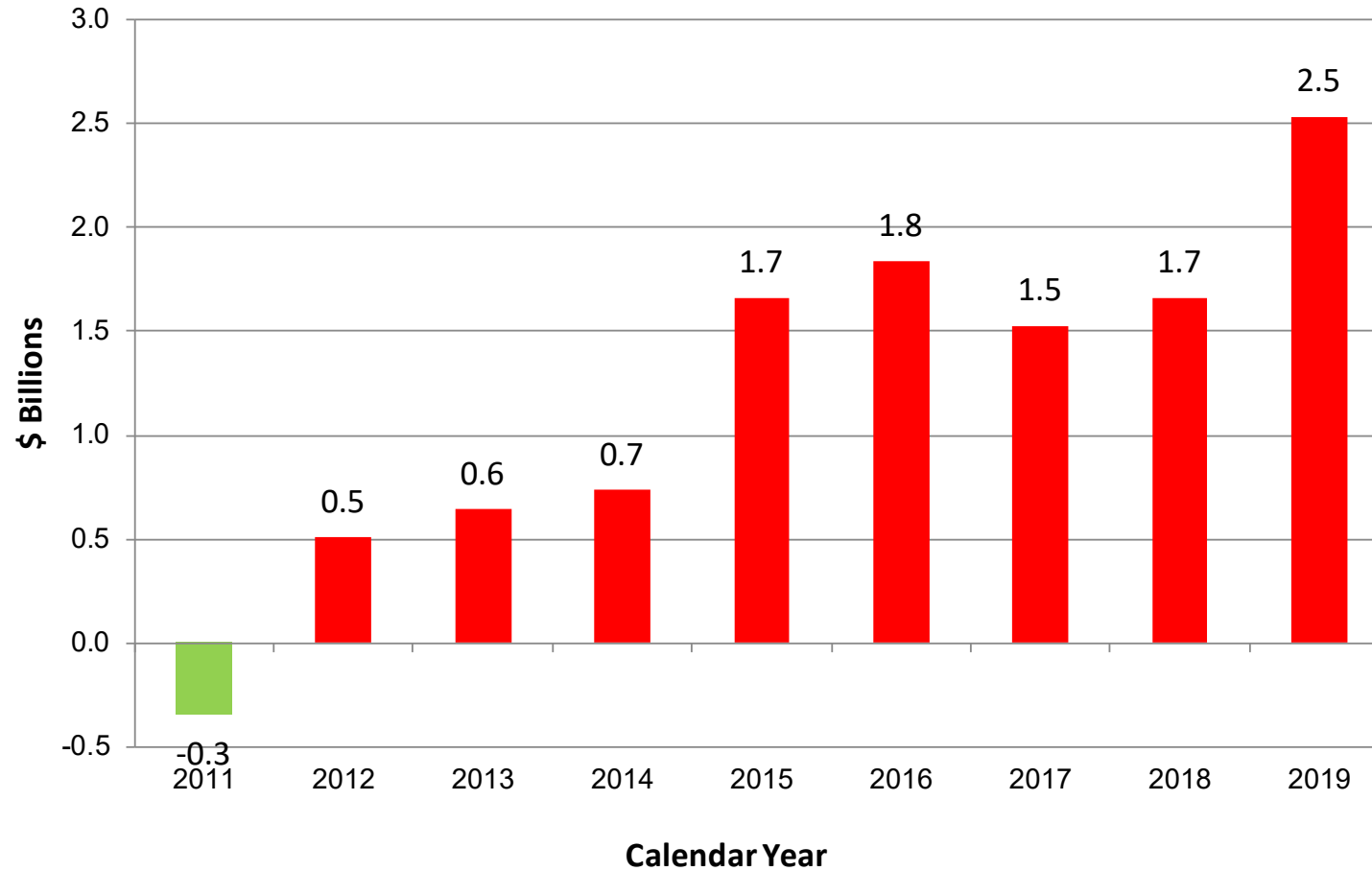


Industry Reserve Runoff



Industry Reserve Runoff

Comm Auto Liab
Historical One-Year Loss Reserve Development



Commercial Auto Liability LDFs

Cumulative Paid Loss & DCC Development

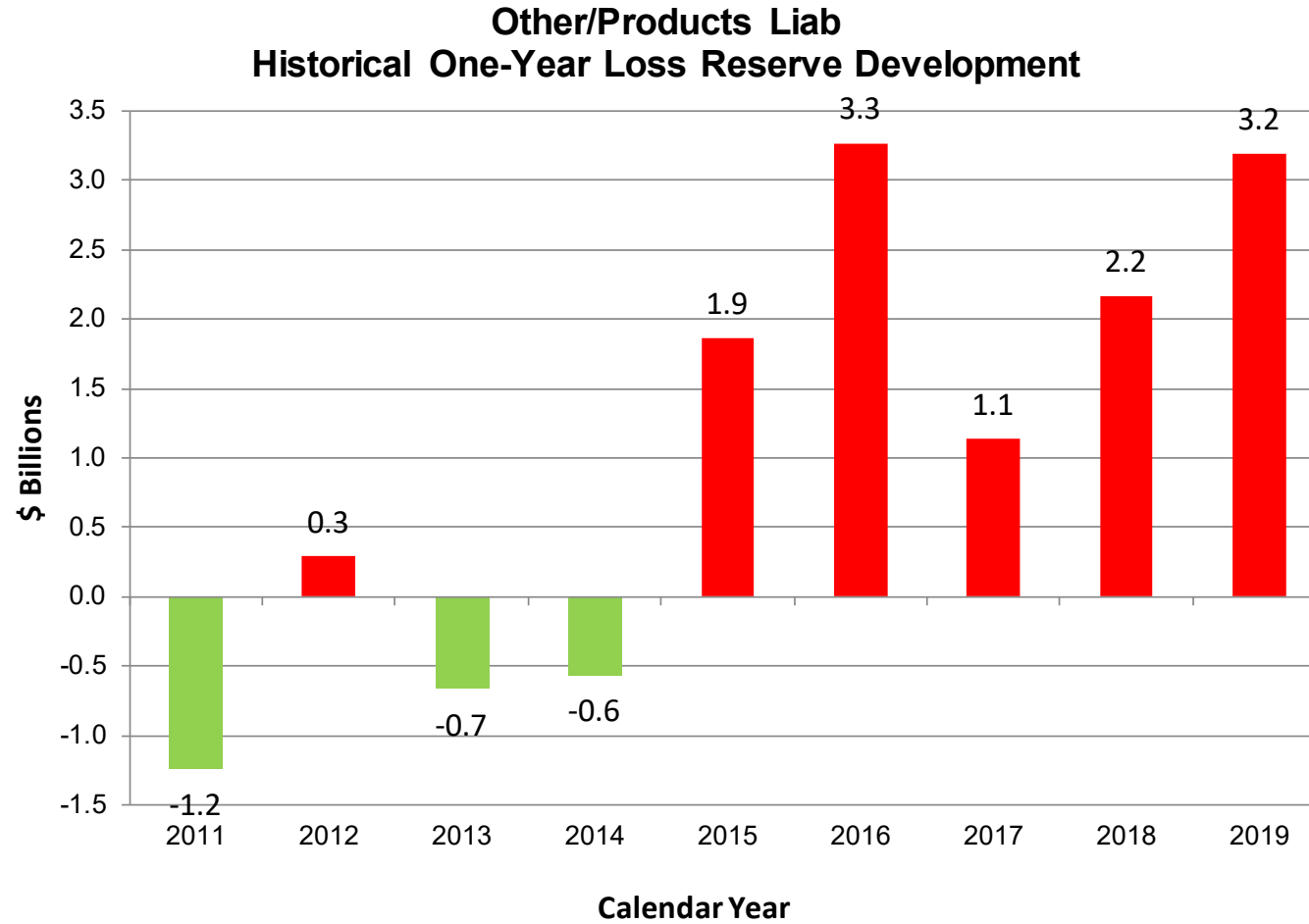
AY	<u>12-24</u>	<u>24-36</u>	<u>36-48</u>	<u>48-60</u>	<u>60-72</u>	<u>72-84</u>
2010	2.1262	1.4502	1.2327	1.1198	1.0507	1.0244
2011	2.1303	1.4406	1.2420	1.1275	1.0568	1.0228
2012	2.1559	1.4543	1.2493	1.1260	1.0497	1.0254
2013	2.1697	1.4652	1.2699	1.1303	1.0560	1.0293
2014	2.1748	1.5073	1.2641	1.1461	1.0572	
2015	2.2499	1.4912	1.2914	1.1356		
2016	2.2879	1.5185	1.2842			
2017	2.2937	1.5117				
2018	2.3595					

Cumulative Case Incurred Loss & DCC Development

AY	<u>12-24</u>	<u>24-36</u>	<u>36-48</u>	<u>48-60</u>	<u>60-72</u>	<u>72-84</u>
2010	1.3605	1.1589	1.0769	1.0401	1.0135	1.0049
2011	1.4004	1.1590	1.0809	1.0402	1.0152	1.0062
2012	1.3985	1.1653	1.0854	1.0405	1.0140	1.0067
2013	1.4116	1.1786	1.0964	1.0407	1.0160	1.0118
2014	1.4167	1.1894	1.1011	1.0500	1.0184	
2015	1.4392	1.1824	1.1049	1.0481		
2016	1.4271	1.1958	1.1031			
2017	1.4367	1.1958				
2018	1.4697					



Industry Reserve Runoff



Other Liability Occurrence LDFs

Cumulative Paid Loss & DCC Development

AY	<u>12-24</u>	<u>24-36</u>	<u>36-48</u>	<u>48-60</u>	<u>60-72</u>	<u>72-84</u>
2010	2.7035	1.8134	1.3902	1.2405	1.1160	1.0796
2011	2.8168	1.7692	1.4282	1.2625	1.1395	1.0716
2012	2.9173	1.7924	1.4522	1.2399	1.1529	1.0827
2013	2.8696	1.8510	1.4300	1.2576	1.1366	1.0812
2014	2.7185	1.7775	1.4596	1.2442	1.1414	
2015	2.9643	1.7593	1.4959	1.2617		
2016	3.1013	1.7716	1.4572			
2017	2.9155	1.7539				
2018	3.1272					

Leverage
Effect

Cumulative Case Incurred Loss & DCC Development

AY	<u>12-24</u>	<u>24-36</u>	<u>36-48</u>	<u>48-60</u>	<u>60-72</u>	<u>72-84</u>
2010	1.8350	1.4092	1.1960	1.1123	1.0566	1.0472
2011	1.8733	1.3919	1.2239	1.1172	1.0650	1.0372
2012	1.9014	1.4196	1.2327	1.1052	1.0771	1.0418
2013	1.9288	1.4447	1.2201	1.1280	1.0748	1.0517
2014	1.9079	1.3992	1.2253	1.1294	1.0793	
2015	1.9425	1.4153	1.2635	1.1509		
2016	1.9939	1.4060	1.2635			
2017	2.1459	1.4166				
2018	1.9872					

Leverage
Effect



Industry Reserve Runoff

Industry One year development

	Calendar Year									2020
	2011	2012	2013	2014	2015	2016	2017	2018	2019	
Workers Comp	(0.3)	(1.2)	(1.3)	(1.0)	(1.8)	(1.9)	(4.3)	(7.7)	(8.1)	C O V I D I M P A C T
Other/Products Liability	(1.2)	0.3	(0.7)	(0.6)	1.9	3.3	1.1	2.2	3.2	
Comm Auto Liab	(0.3)	0.5	0.6	0.7	1.7	1.8	1.5	1.7	2.5	
Proportional Reins Assumed	(1.0)	(1.2)	(1.2)	(2.2)	(1.4)	(1.7)	(0.3)	(0.7)	(0.3)	
CMP	(0.9)	(0.3)	(0.5)	(0.2)	(0.5)	0.7	(0.3)	(0.0)	0.6	
Homeowners	(1.0)	(1.6)	(1.6)	(0.9)	(0.6)	(0.2)	(0.0)	0.2	0.2	
Pers Auto Liab	(2.9)	(2.8)	(1.2)	(0.5)	0.5	1.8	1.1	(0.8)	(0.4)	
Medical Prof Liab	(2.0)	(1.8)	(2.0)	(1.6)	(1.4)	(0.9)	(1.0)	(1.2)	(0.6)	
<u>Short Tail Lines</u>	<u>(3.6)</u>	<u>(2.7)</u>	<u>(3.2)</u>	<u>(3.5)</u>	<u>(3.7)</u>	<u>(4.3)</u>	<u>(4.6)</u>	<u>(4.7)</u>	<u>(4.1)</u>	
Total	(13.8)	(11.2)	(11.4)	(10.1)	(5.7)	(1.5)	(6.9)	(11.2)	(6.7)	

Industry Reserve Runoff – COVID Impact

- 2020 Accident Year Occurrence
 - No effect on Ultimates for 2019 & Prior AYs?
- Slow down in Claims Reporting/Handling/Settling
 - Observe lower LDFs along diagonal
 - Not really improving
 - Actual vs. Expected will indicate reserve takedown
 - Those that react may take down too much
 - Fear of seeking medical treatment during crisis = worse injuries
 - Longer settlement times = more punitive outcomes
- Assuming COVID did not happen
 - Expectation = lower Favorable Development in CY 2020 than in CY 2019

US PC BCAR Model Annual Parameter Update – YE 2019

BCAR Component	Specific Item	No Change	Change
Impacts most	Global 4% discount factor	✓	
B1/C1-nonEq	Fixed Income Risk Charges	✓	
B3	Interest Rate Risk Charges	✓	
B2/C1-Eq	Common Stock Equity Risk Charges	✓	
B2/C1-Eq	Real Estate Equity Risk Charges	✓	
B2/C1-Eq	Other BA Assets Risk Charges	✓	
B4	Reinsurance Credit Risk Charges	✓	
B4	Recoverables to Surplus		✓
B4	Pools/Associations ICR Ratings		✓
B5 & B6	Premium Growth Charge		✓
B5	Industry Reserve Discount Factors		✓
B5	Reserve Risk Charges	✓	
B6	Premium Risk Charges	✓	
B6	Market Adjustment based on Underwriting Cycle		✓

Other Changes Impacting US PC BCAR Model – YE 2019

- AM Best's Supplemental Rating Questionnaire (SRQ)
 - Separate PMLs requested for:
 - Wildfire
 - Inland Flood
 - Also include in "All-Perils" PMLs
 - Materiality



COVID Impact on US PC BCAR Model – YE 2020

- Asset Values
- PHS level varies by LOBs
- Lower WP levels (temporary?)
 - Growth thresholds
- NPW capital factors
 - Reflect company profitability
 - Industry UW cycle adjustment
- Reserve capital factors
 - Increased volatility in case incurred LDFs?

BCRM – Innovation Criteria

Edin Imsirovic – Associate Director, AM Best



Why Is Innovation Important?

- Structural changes taking place

Demographic Shifts

- Defined benefits/pensions disappearing
- Healthcare becoming more expensive
- Gig economy becoming more prevalent
- Collaborative consumption trends

Climate-Related Trends

- Weather events increasing in severity
- Migration to coastal regions
- Urbanization leading to topological changes

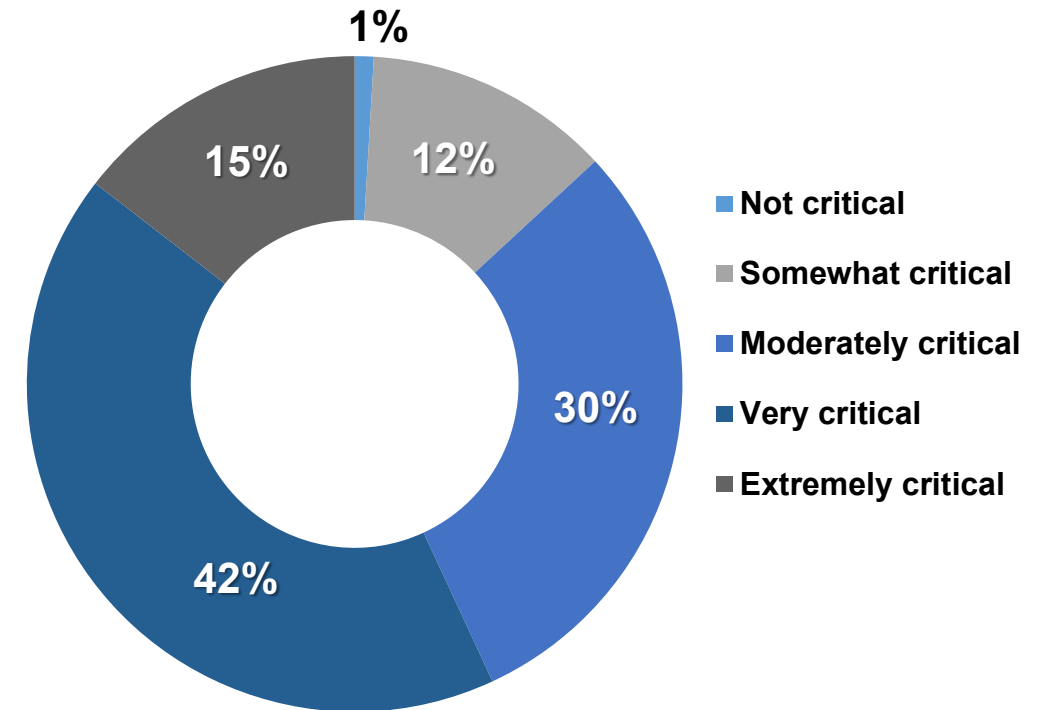
Technology

- Cloud computing
- IoT
- Big Data
- Artificial intelligence/machine learning
- Blockchain

Innovation – Why Now?

- Given the pace and magnitude of technological and societal changes, innovation is becoming increasingly critical for the insurance industry
- Insurance industry agrees, innovation is critical for future financial success

How Critical Is Innovation to the Success of Your Organization?

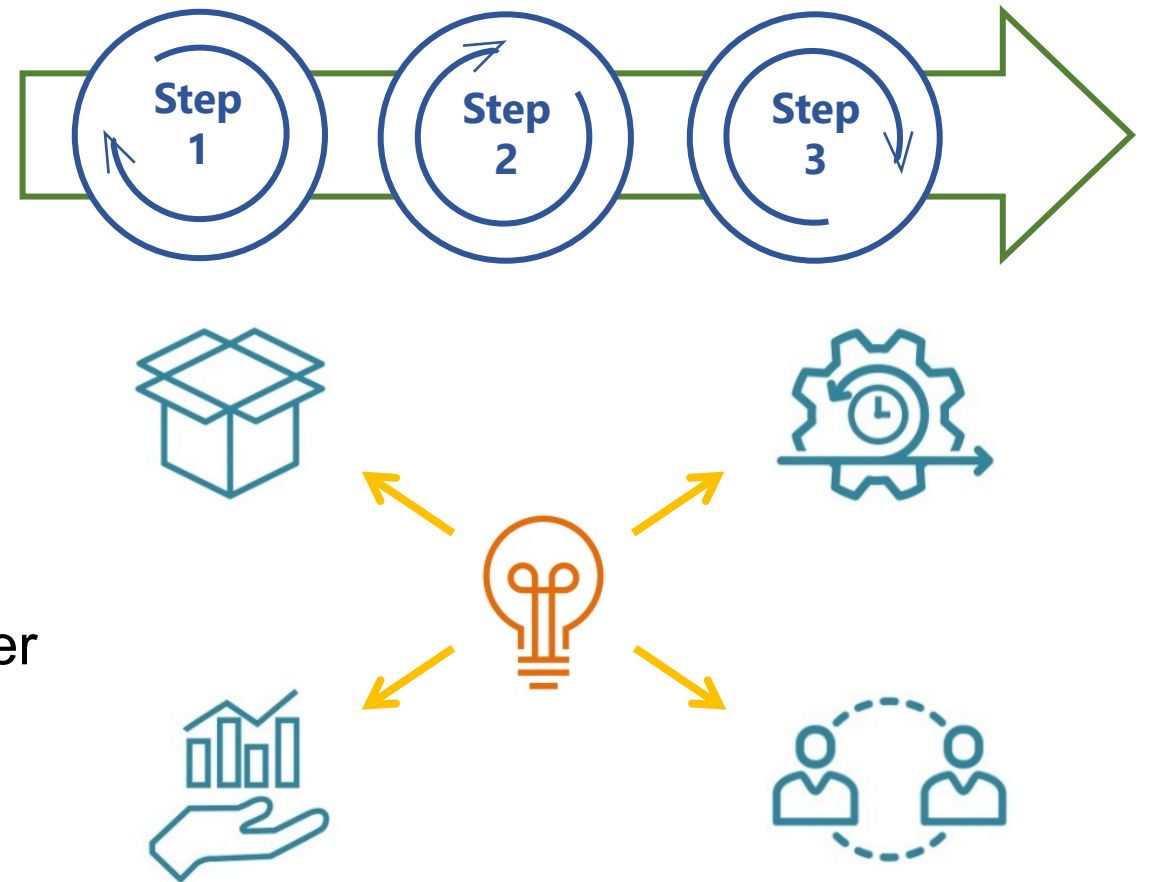


Source: AM Best data and research

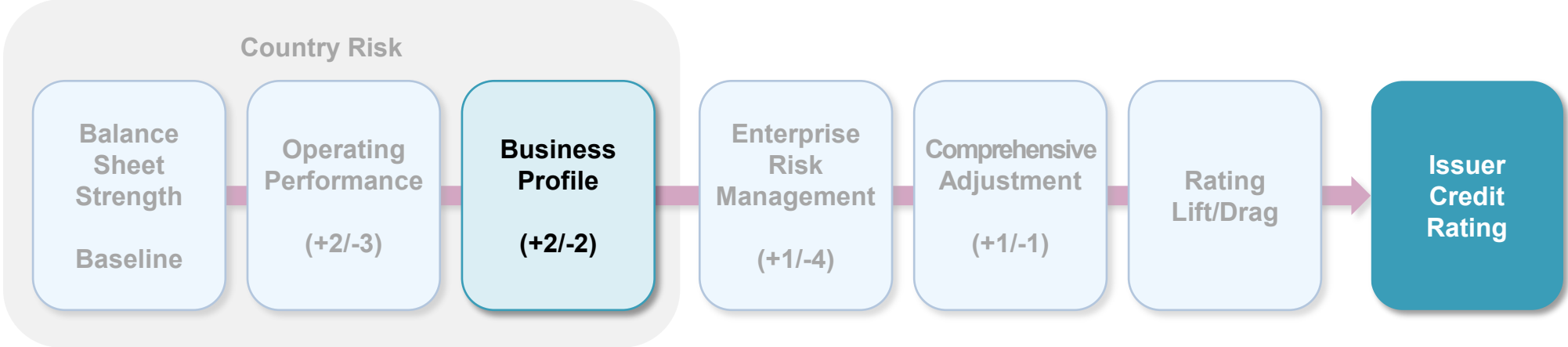


Innovation – AM Best Definition

- A multi-stage process...
- ... that transforms ideas into new or significantly improved:
 - Products
 - Processes
 - Services
 - Business models
- ... that have measurable positive impact over time and enable an organization to stay relevant and successful ...
- ... and can be organically grown or adopted from external sources.



BCRM Building Blocks – Business Profile



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



Innovation Score

$$\begin{aligned} & \text{AM Best Scoring:} \\ & \text{Innovation Input Score} \\ & + \text{Innovation Output Score} \\ & \hline & = \text{Innovation Score} \end{aligned}$$

Innovation Opportunities



Customers

- Customer service and customer experience are becoming increasingly important competitive differentiators



Technology

- Even marginal improvement in underwriting through technological advancements, can be critical in current environment



Digital Ecosystems

- Allow insurers to offer products and services beyond the traditional insurance policy, improving access to customers and growing revenue

Impact of COVID on Innovation

- COVID has accelerated digital transformation initiatives for many insurers as digital experience is becoming the priority across all lines of business.



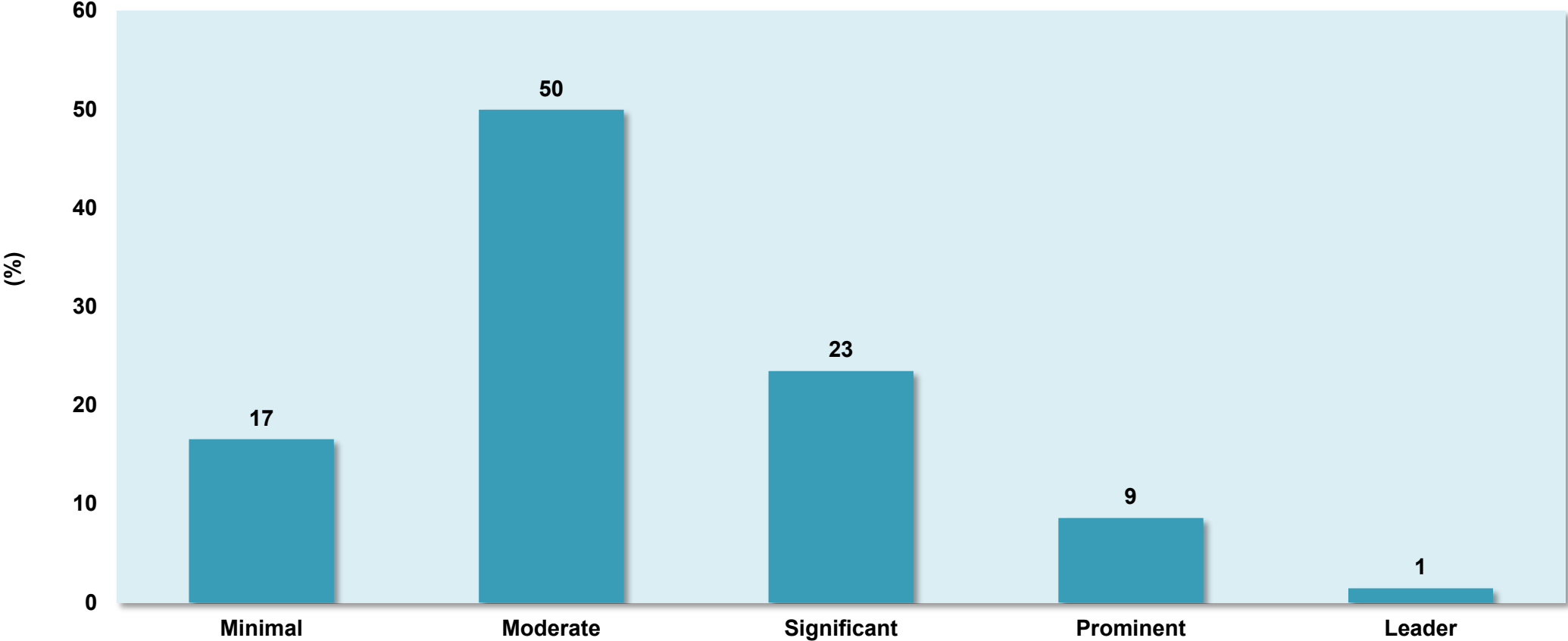
Digitization

- **Distribution**
- **Claims**
- **Customer Experience**

- Product innovation is becoming increasingly important as consumers are seeking new types of products such as usage based insurance.

Distribution Centered on “Moderate”

Innovation Assessments



Lines Leading the Innovation Push



Reinsurance



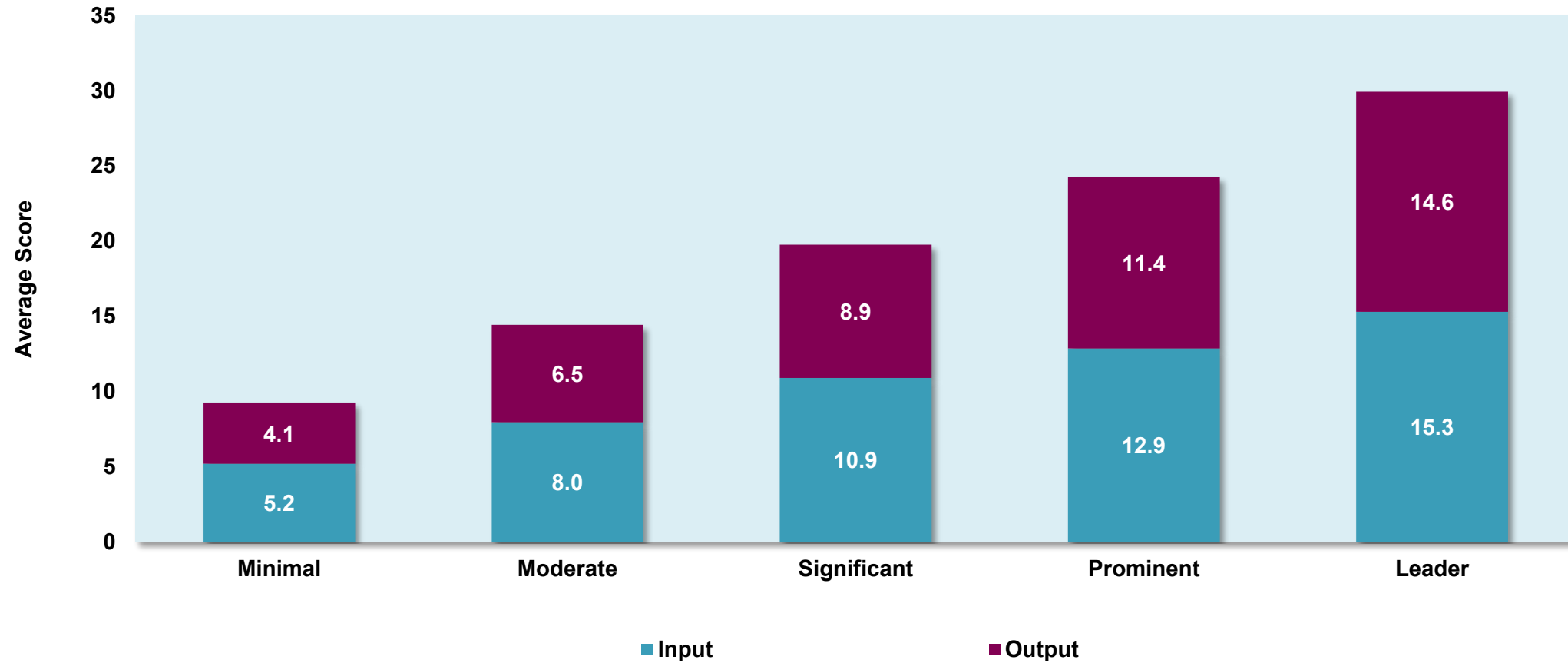
Health



Auto

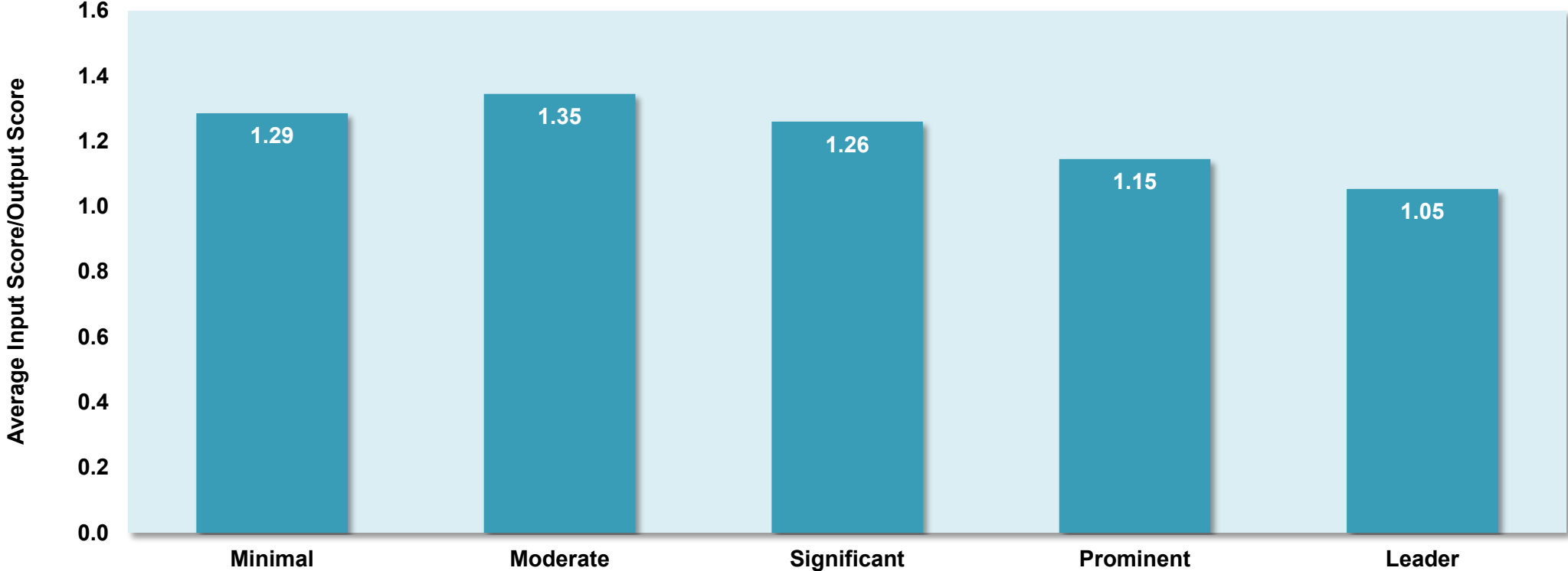
Output Score Lags Input Score

Average Total Innovation Score by Assessment



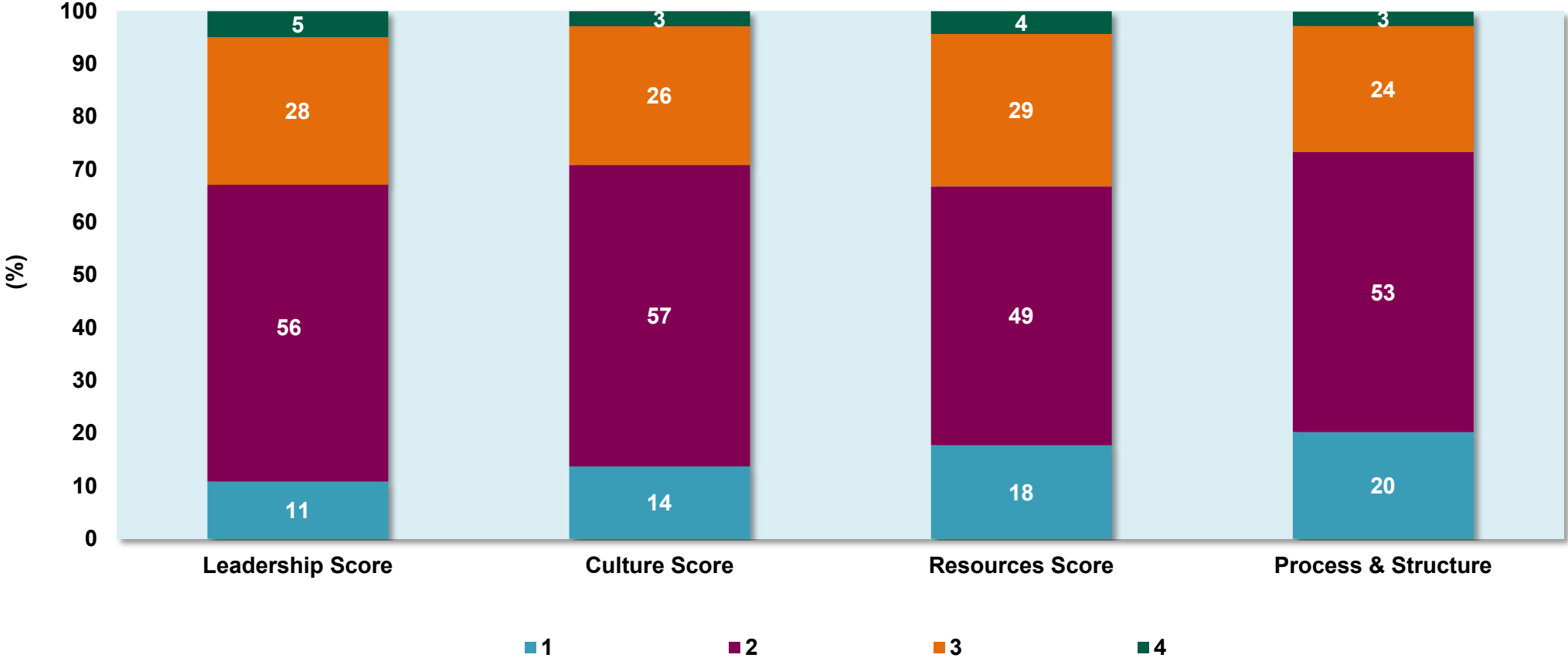
Return on Effort

Average Input Score Divided by Average Output Score by Innovation Profile

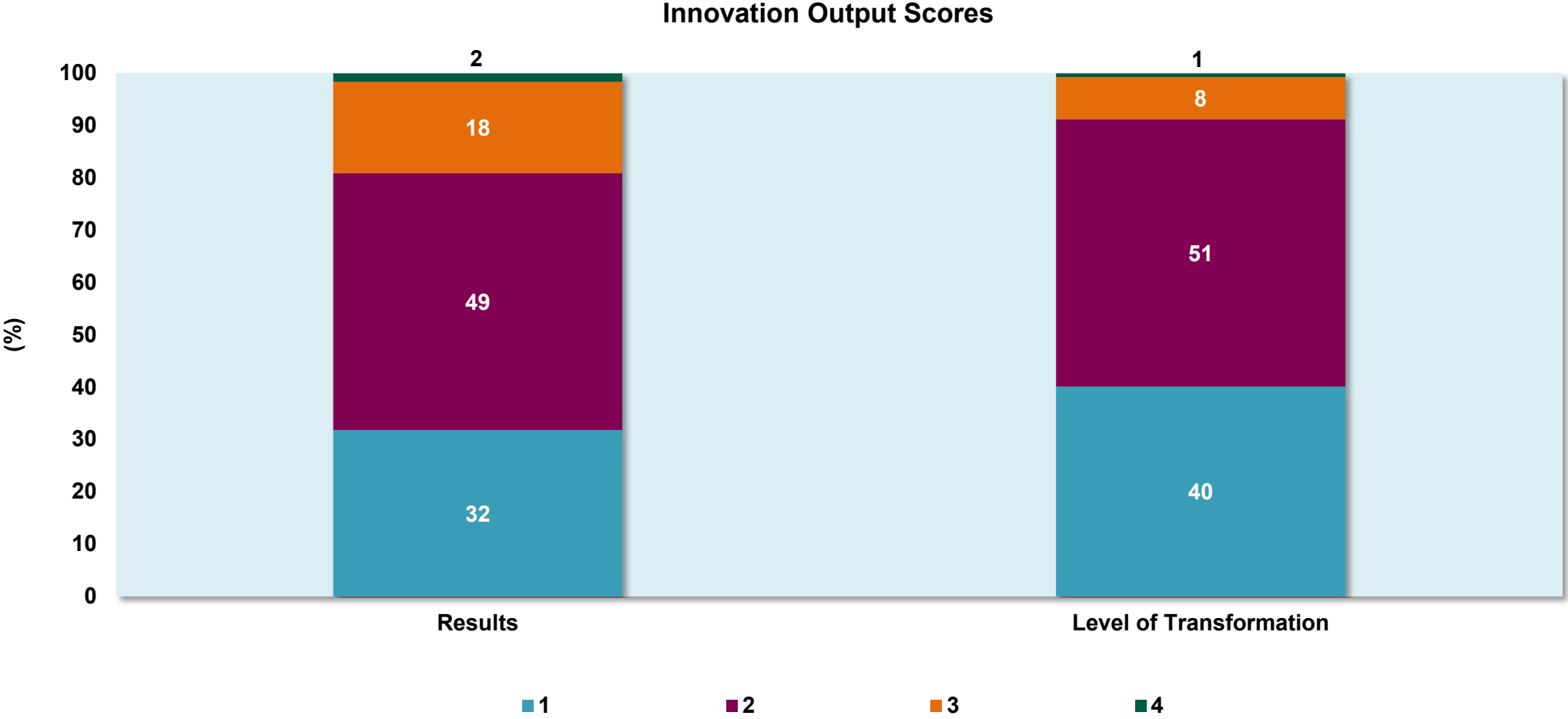


It Starts with Leadership

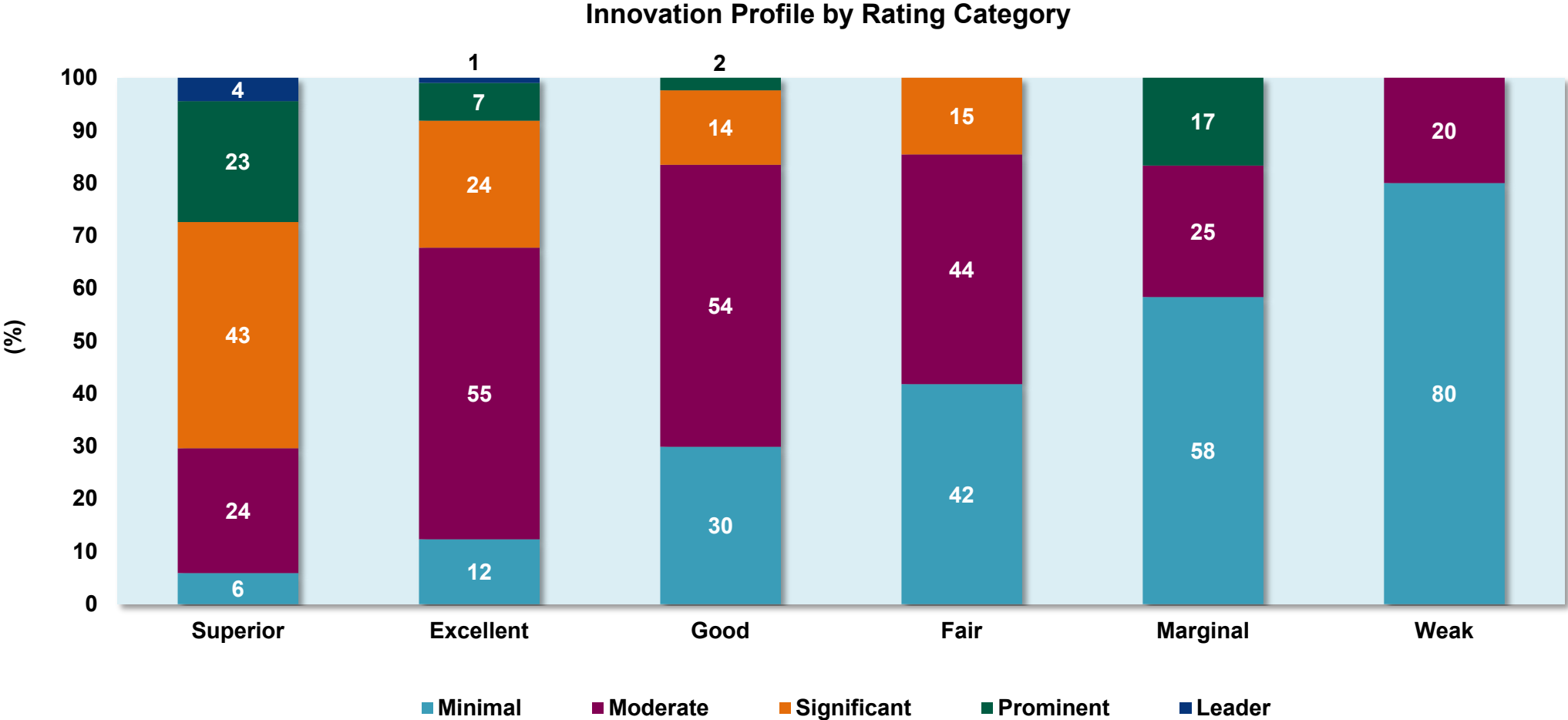
Innovation Input Component Score Distribution



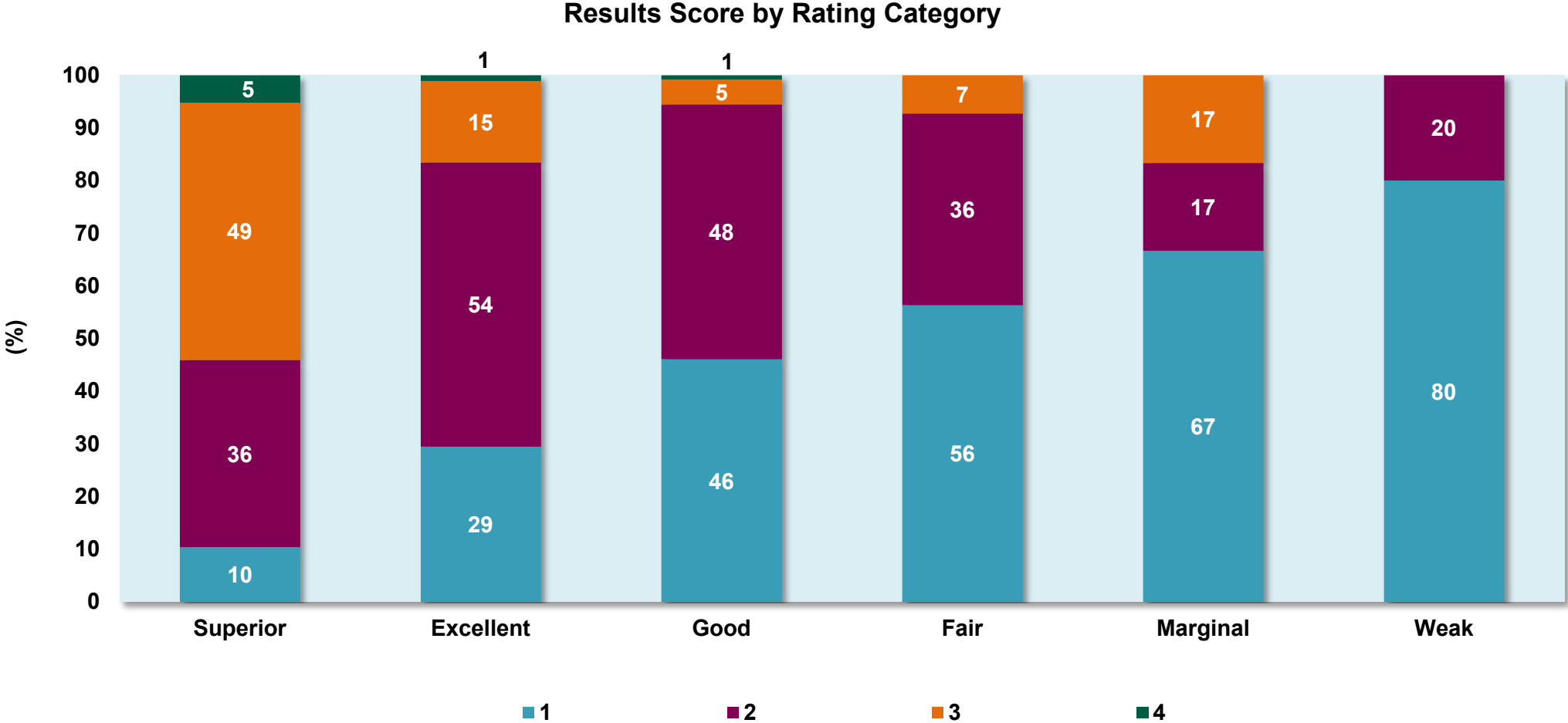
Most Innovation Not Transformative ... Yet



Higher Rated Companies Are More Innovative ...

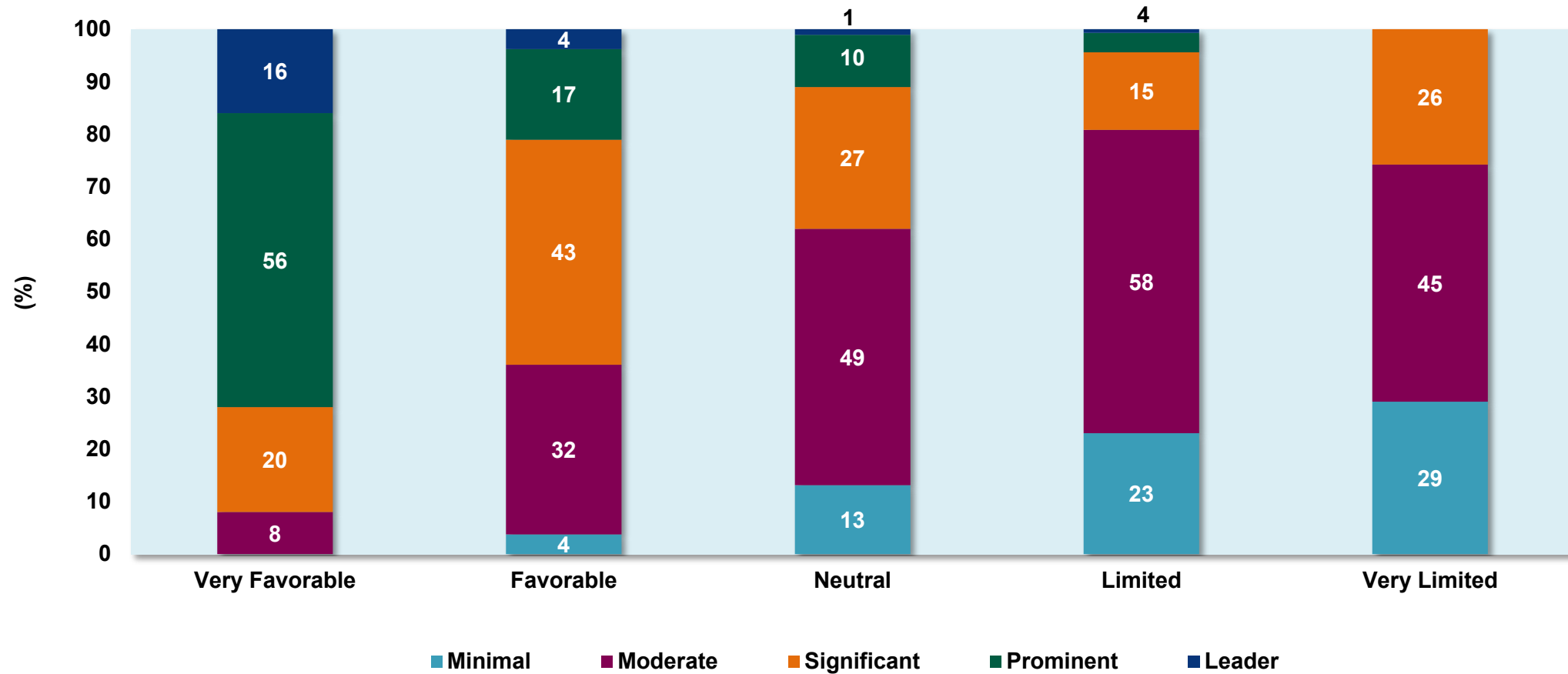


... and Get More Results from the Effort



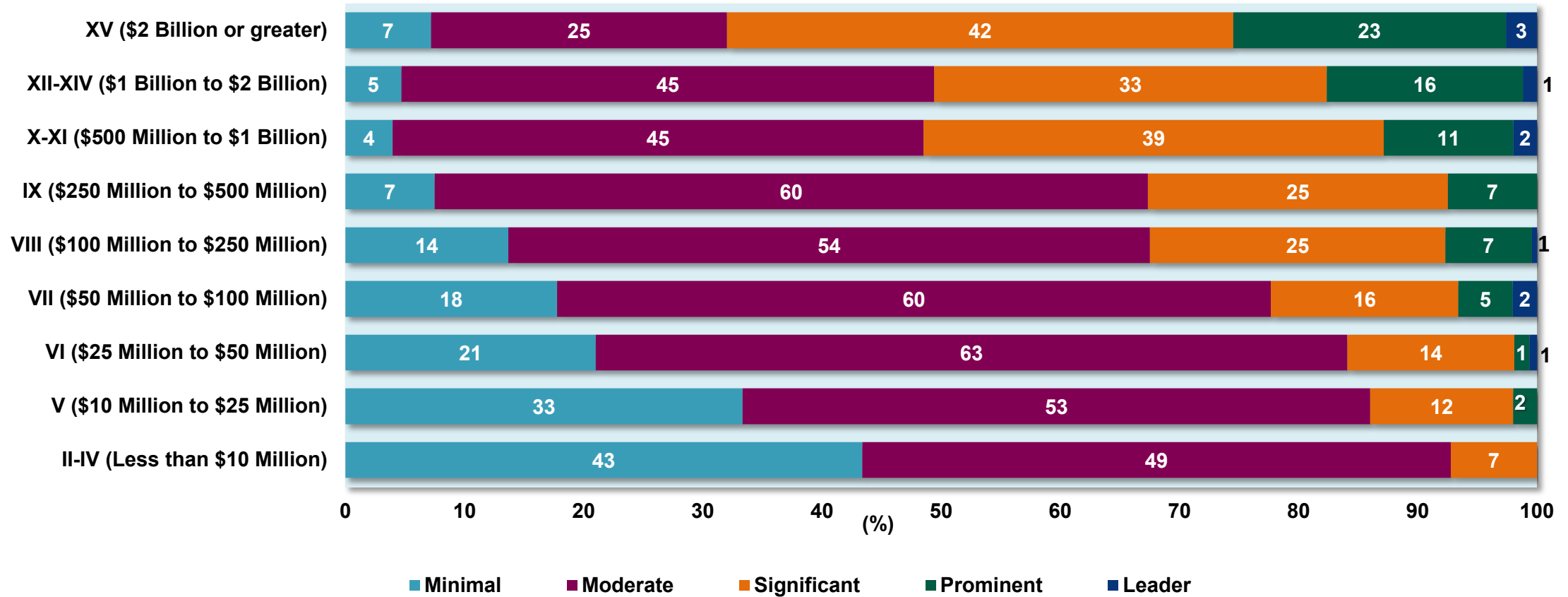
A Clear Link with Business Profile

Innovation Profile by Business Profile Assessment



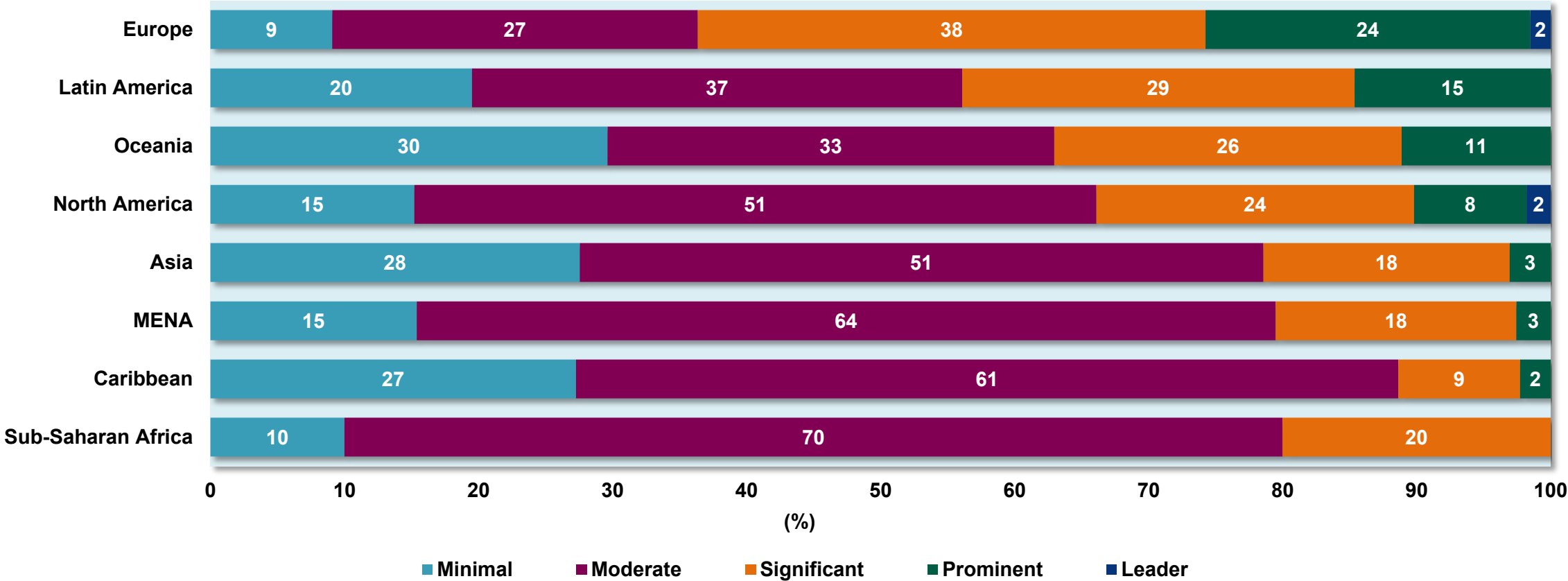
Innovation Is Not Just for Large Companies

Innovation Profile by Financial Size Category



It Is a Global Phenomenon

Innovation Profile by Geographic Region



More Insights:

<http://www.ambest.com/about/coronavirus.html>



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