

AM Best Introduction, Ratings and Use

AM Best Overview

Established in 1899

Only Global Insurance Focused Rating Agency

- 140 analysts in 6 offices
 - Skills and designations: CPA, CFA, MBA/MS/MA, CAS/SOA, Ph.D.
- Rating over 3,600 insurance companies worldwide
- Rating over 2,600 US insurance companies

Over 700 Employees Focused on Insurance

Leading Provider of News and Insurance Information Products

Ratings Agency Results – Default and Transition Studies

Best's Average Cumulative Gross Impairment Rates (FSRs)

US Life/Health and Property/Casualty, 1977-2017

Rating	1-Year	2-Year	3-Year	4-Year	5-Year	6-Year	7-Year	8-Year	9-Year	10-Year	11-Year	12-Year	13-Year	14-Year	15-Year
A++	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.04%	0.08%	0.09%	0.09%	0.10%	0.11%
A+	0.06%	0.18%	0.35%	0.52%	0.70%	0.94%	1.19%	1.46%	1.80%	2.16%	2.55%	3.02%	3.53%	4.05%	4.49%
A	0.12%	0.36%	0.69%	1.09%	1.51%	1.99%	2.54%	3.15%	3.77%	4.40%	5.12%	5.77%	6.42%	7.14%	7.87%
A-	0.24%	0.73%	1.19%	1.72%	2.44%	3.12%	3.82%	4.60%	5.30%	6.03%	6.72%	7.50%	8.37%	9.23%	10.20%
B++	0.46%	1.44%	2.32%	3.37%	4.39%	5.42%	6.47%	7.28%	8.26%	9.20%	10.01%	11.07%	12.24%	13.45%	14.85%
B+	0.80%	1.79%	3.03%	4.66%	6.48%	8.07%	9.62%	11.01%	12.20%	13.46%	14.87%	16.23%	17.48%	18.77%	19.86%
B	1.54%	3.67%	6.38%	8.74%	10.94%	13.70%	16.29%	18.61%	20.73%	22.78%	24.72%	26.74%	28.61%	30.61%	32.50%
B-	5.03%	8.83%	11.24%	13.39%	16.01%	18.41%	20.74%	22.52%	24.90%	27.23%	29.42%	31.55%	33.75%	35.87%	38.10%
C++/C+	3.70%	6.54%	10.11%	13.71%	17.00%	20.45%	23.49%	27.10%	30.08%	32.45%	34.49%	36.70%	38.58%	40.20%	41.98%
C/C-	5.58%	9.35%	12.96%	17.04%	20.81%	24.86%	28.79%	32.77%	36.14%	38.65%	41.72%	44.53%	47.15%	50.31%	53.65%
D	7.94%	14.01%	19.87%	24.93%	29.91%	35.10%	39.09%	42.53%	45.38%	48.43%	51.67%	53.98%	55.78%	57.43%	58.98%
All	0.58%	1.21%	1.92%	2.67%	3.48%	4.32%	5.17%	6.02%	6.85%	7.70%	8.58%	9.49%	10.40%	11.35%	12.26%

Source: A.M. Best data and research



Ratings Agency Results – Default and Transition Studies

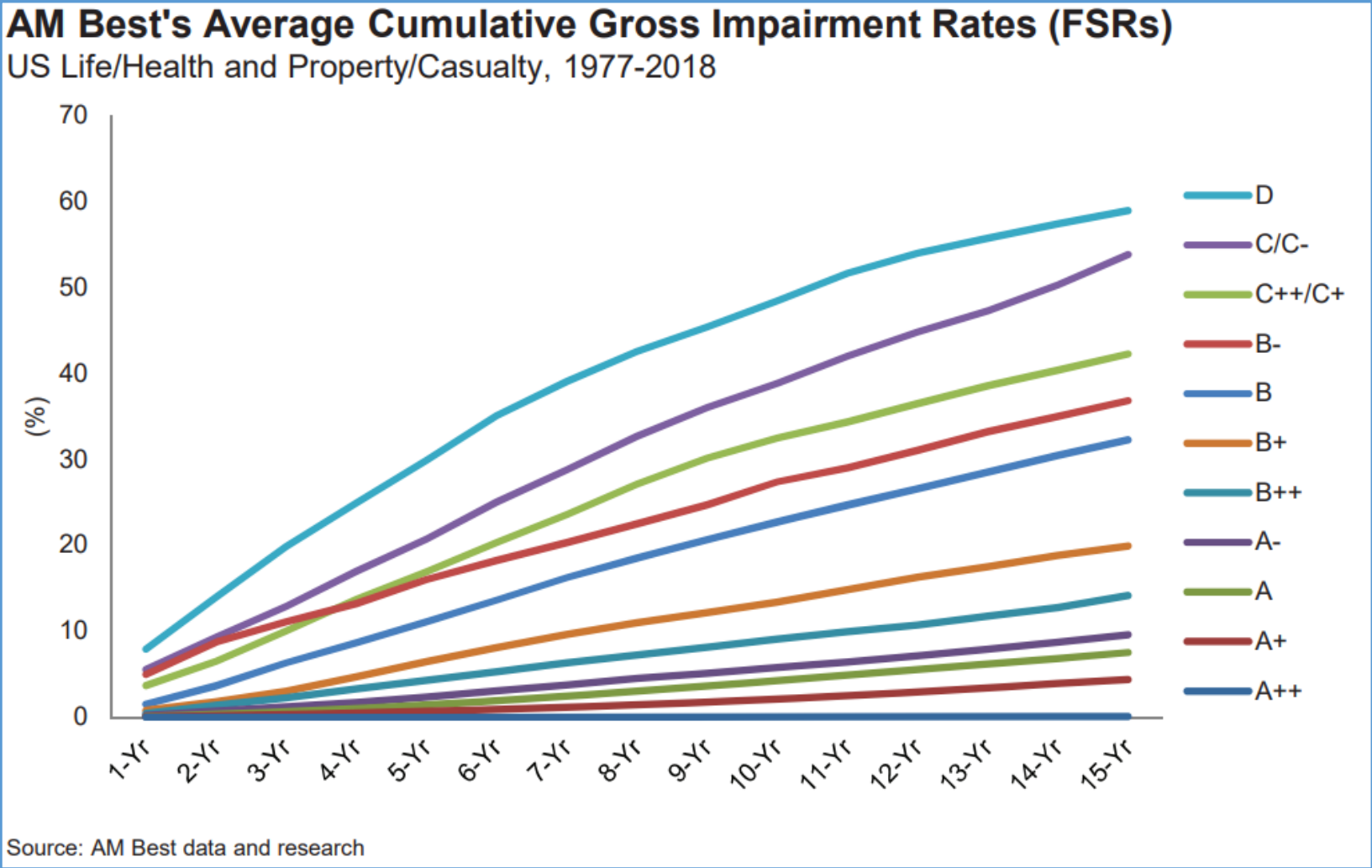
Best's Average Cumulative Liquidation Rates (FSRs)

US Life/Health and Property/Casualty, 1977-2017

Rating	1-Year	2-Year	3-Year	4-Year	5-Year	6-Year	7-Year	8-Year	9-Year	10-Year	11-Year	12-Year	13-Year	14-Year	15-Year
A++	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
A+	0.03%	0.09%	0.18%	0.28%	0.36%	0.48%	0.57%	0.67%	0.78%	0.90%	1.02%	1.16%	1.32%	1.47%	1.60%
A	0.06%	0.16%	0.31%	0.46%	0.64%	0.80%	0.99%	1.18%	1.36%	1.53%	1.74%	1.93%	2.11%	2.33%	2.53%
A-	0.15%	0.44%	0.63%	0.87%	1.13%	1.32%	1.49%	1.72%	1.90%	2.07%	2.21%	2.35%	2.52%	2.70%	2.91%
B++	0.31%	0.82%	1.17%	1.53%	1.89%	2.30%	2.75%	2.98%	3.28%	3.54%	3.70%	3.93%	4.20%	4.51%	4.84%
B+	0.47%	0.96%	1.48%	2.12%	2.86%	3.44%	3.95%	4.41%	4.74%	5.07%	5.50%	5.80%	6.04%	6.28%	6.49%
B	1.06%	2.04%	3.20%	4.07%	4.64%	5.34%	6.05%	6.65%	7.19%	7.76%	8.12%	8.52%	8.92%	9.33%	9.68%
B-	3.09%	5.38%	6.31%	7.05%	7.27%	7.79%	8.35%	9.21%	9.79%	10.13%	10.72%	11.52%	12.02%	12.40%	13.08%
C++/C+	2.74%	4.29%	5.79%	6.81%	7.99%	9.08%	9.89%	10.61%	11.21%	11.47%	11.79%	12.23%	12.82%	13.30%	13.49%
C/C-	2.42%	4.37%	5.62%	6.86%	7.88%	9.19%	10.10%	11.25%	12.03%	12.72%	13.65%	14.76%	15.42%	16.38%	17.04%
D	4.59%	7.30%	9.52%	11.38%	13.15%	14.83%	16.16%	17.17%	17.99%	18.81%	19.71%	20.38%	20.86%	21.37%	21.81%
All	0.37%	0.72%	1.06%	1.39%	1.72%	2.04%	2.35%	2.64%	2.90%	3.15%	3.41%	3.67%	3.92%	4.18%	4.43%

Source: A.M. Best data and research

Value of Being “Secure”



Users of Best's Ratings

- Insurance Companies
- Agents
- Brokers
- Policyholders

- Financial Institutions
- Investors & Investment Professional
- Employee Benefits Managers
- Debt and Equity Research Analysts

- Corporate Risk Managers
- Consultants
- Actuaries

- Reinsurers
- Captive/Alternative Risk Managers
- Underwriters

- Boards of Directors
- Consumers

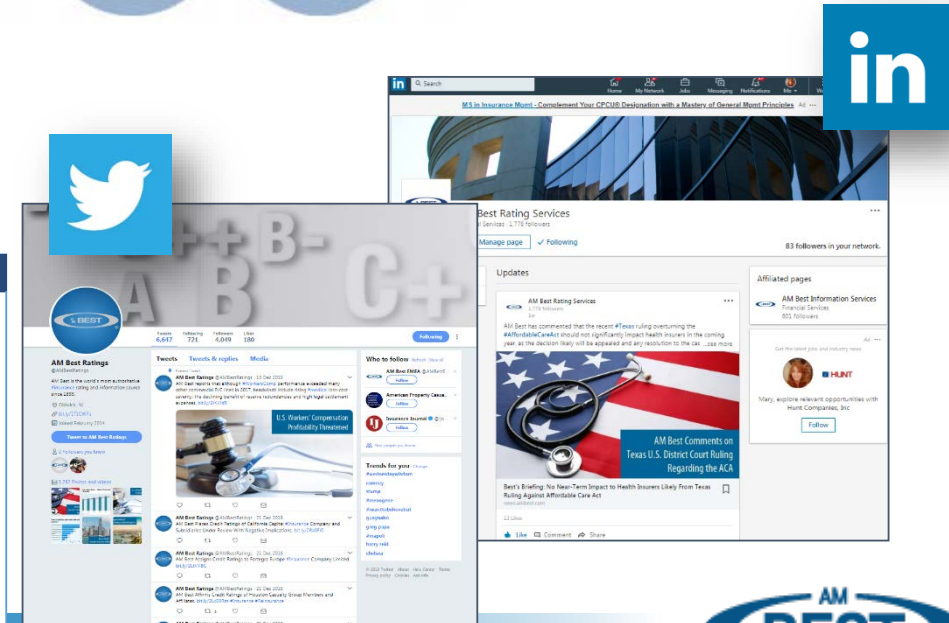
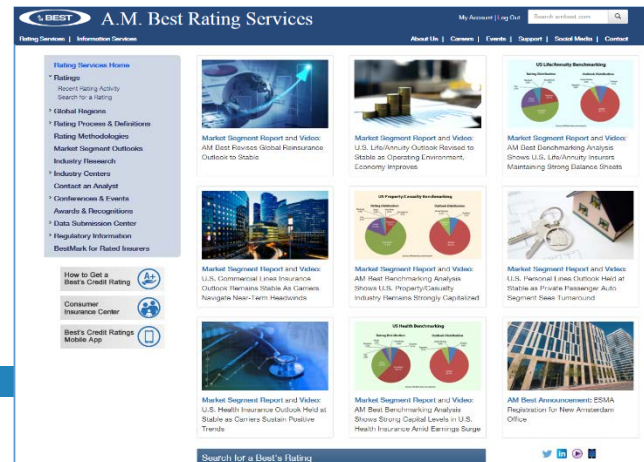
- Government Agencies
- Regulators
- Academics

Relationship with Clients and the Market / Industry

- Interactive process with rated entities
- Plus:
 - Web listings
 - Ratings (Plus Best's Credit Ratings App)
 - Press Releases
 - Ratings Rationale and Company Reports
 - Special Reports and Commentary



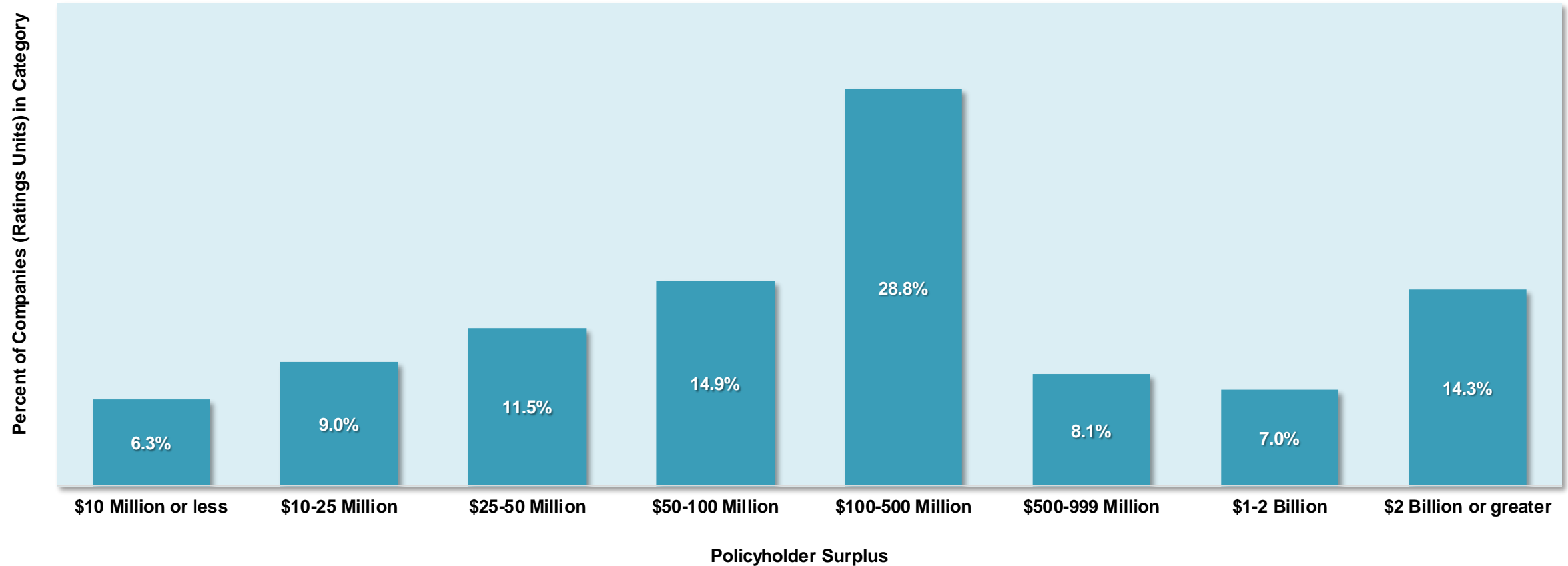
- Social Media
- Traditional Media



Rated Population Example

AM Best's Global Rated P&C Universe

AM Best's Global Rated P&C Universe



Best's PA for DUAEs

What is a Performance Assessment (PA)?

A measurement of the relative ability of an enterprise to perform services on behalf of insurance partners

Key components are assessed and assigned points based on the entity's performance

The summation of the points from each key component determines the Assessment Range which translates into the Performance Assessment

What is a Delegated Underwriting Authority Enterprise (DUAE)?

DUAE is used as a blanket term to capture:

- Managing General Agents (MGAs)
- Managing General Underwriters
- Coverholders
- Program Administrators
- Program Underwriters
- Underwriting Agencies
- Direct Authorizations
- Appointed Representatives

What is a Delegated Underwriting Authority Enterprise (DUAЕ)?

- AM Best defines a DUAЕ as a third party entity that is appointed by a (re)insurer, through contractual agreements, to perform underwriting, claims handling, and/or administrative functions on behalf of their carrier partners
- Typically carried out by insurers, DUAЕ's functions can include:

Binding coverage

Underwriting and pricing

Settling claims

Appointing retail agents in a certain region

Access to niche segments and markets

- The DUAЕ manages all or part of the insurance business of an insurer and acts as an insurance agent or broker for the insurer, while working as the intermediary between insurers and agents, and/or insured

Growing Importance of DUAEs

- Increasingly important part of the insurance value chain (insurance distribution model)
- Main presence in US, UK and Australia; gaining traction in other markets
- Actively used by global insurance players, in addition to small specialized insurers
- Provide a variety benefits:

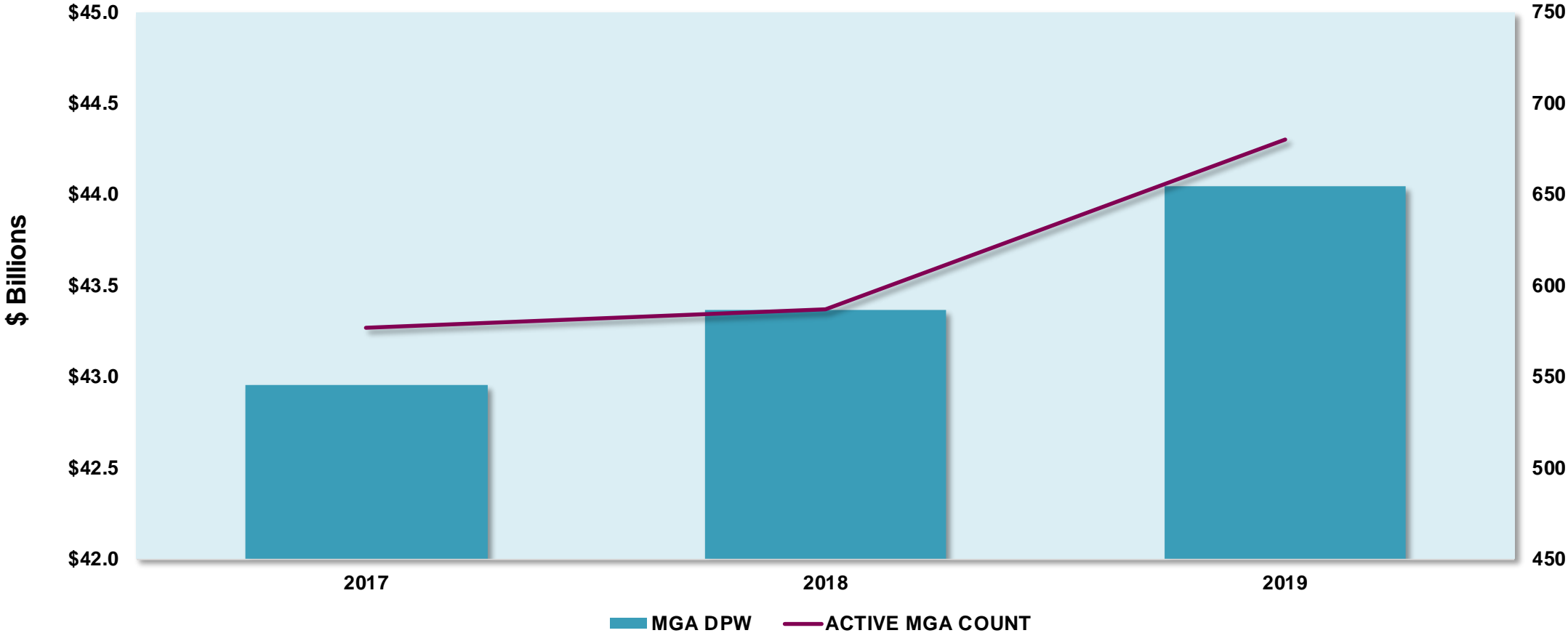
Distribution

**Underwriting
expertise**

**Claims
management**

**Access to
niche
segments
and markets**

US P/C Industry – MGA Production

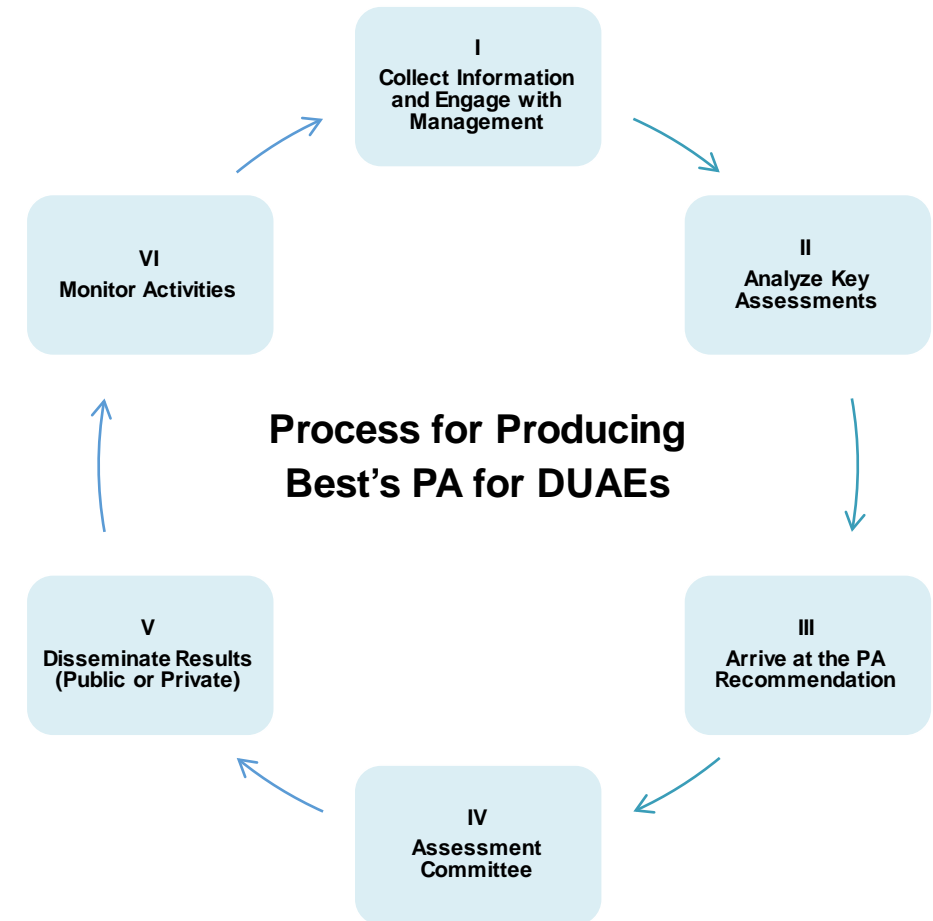


Source: AM Best data and research

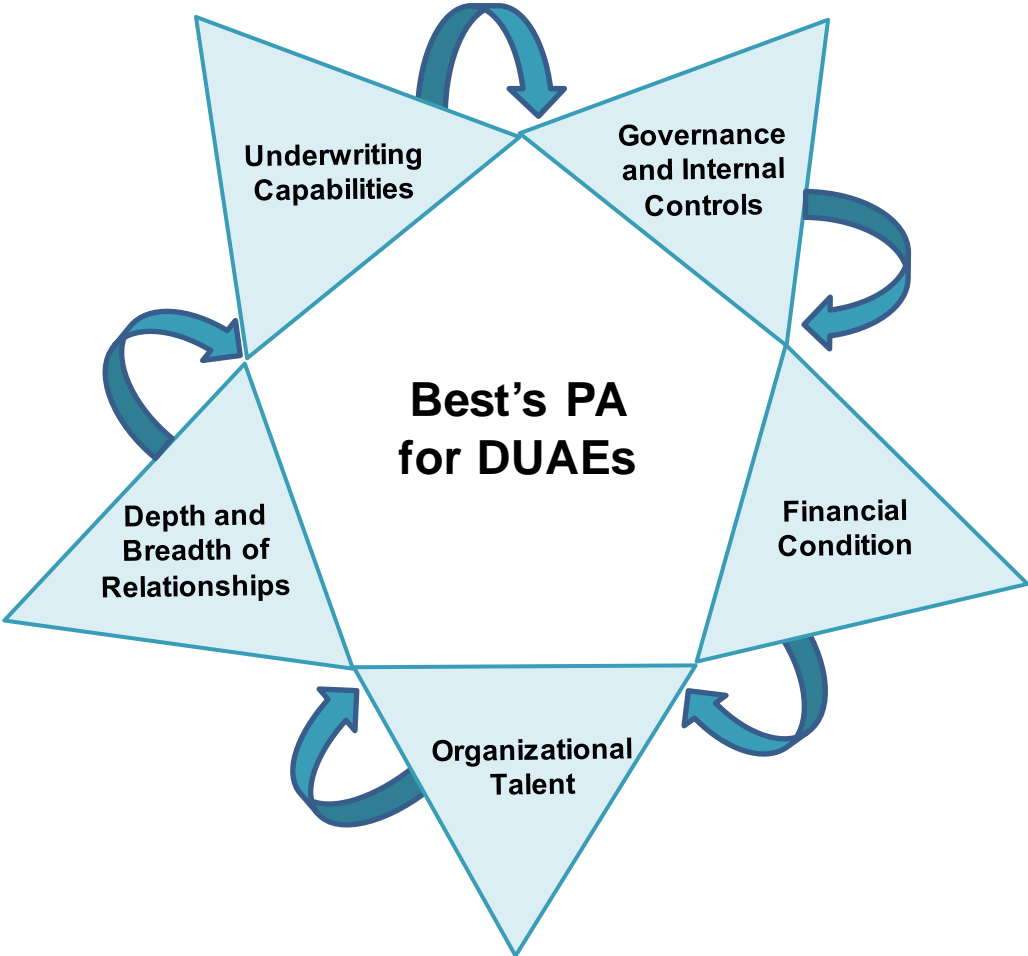


Best's Performance Assessment (PA) for Delegated Underwriting Authority Enterprises (DUAEs)

- Interactive process entails gathering information, engaging with clients (through a formal management meeting), assessing key factors, followed by an assessment committee, and public dissemination (if client agrees), and finally a Performance Assessment Report.
- There are outlooks associated (Positive, Stable, and Negative) with the assessment. The DUAE can be placed under review.
- There is no termination period, with ongoing surveillance of the DUAE.
- Any withdrawal of a PA from the process will need a final assessment.



Best's PA for DUAEs



PA for DUAEs – Final Outcome

Assessment Categories	Assessment Symbols	Assessment Ranges
Exceptional	PA-1	34-40
Excellent	PA-2	27-33
Strong	PA-3	20-26
Fair	PA-4	13-19
Weak	PA-5	Up to 12

The PA scale outlines the DUAЕ's:

- Relative ability to perform services on behalf of its insurance partners
- Underwriting expertise
- Financial performance indicators
- Company processes
- Appropriateness of governance and internal controls

PA for DUAEs – Assessing Key Components

Underwriting Capabilities

Assessment	Points
Exceptional	10
Excellent	8
Strong	6
Fair	4
Weak	2

Sub-assessment Factors

- Quality of underwriting
- Underwriting results
- Underwriting competitive advantage
- Proprietary data and analytics
- Experience of underwriting staff
- Technology in the underwriting process
- Limitations on exceptions/risk appetite

PA for DUAEs – Assessing Key Components

Governance and Internal Controls

Assessment	Points
Exceptional	10
Excellent	8
Strong	6
Fair	4
Weak	2

Sub-assessment Factors

- Alignment of interests
- Systems
- Audits and other management reports
- Policies and procedures
- Disaster recovery plan
- Key person risk plan
- Service measures
- Binding contracts
- Broker contracts
- Partnerships with TPAs

PA for DUAEs – Assessing Key Components

Financial Condition

Assessment	Points
Exceptional	10
Excellent	8
Strong	6
Fair	4
Weak	2

Sub-assessment Factors

- Analysis of financial metrics
- Participation in risk sharing

PA for DUAEs – Assessing Key Components

Organizational Talent

Assessment	Points
Exceptional	5
Excellent	4
Strong	3
Fair	2
Weak	1

Sub-assessment Factors

- Tenure
- Training programs
- Executive experience
- Organizational structure

PA for DUAEs – Assessing Key Components

Depth & Breadth of Relationships

Assessment	Points
Exceptional	5
Excellent	4
Strong	3
Fair	2
Weak	1

Sub-assessment Factors

- Number of programs and markets
- Consistency of relationships
- Geographic reach
- Retention of clients

Best's PA for DUAEs – Agenda Items



Analyzing New DUAE Formations

Requirements

- **Two year business plan**
- **Certified financial statements or reports for any completed fiscal years**
- **Interim financial statement or reports**
- **Experience of management team and sufficiency of operational infrastructure**
- **Access to management, BOD, strategic investors, other third parties**
- **Monitoring against initial business plan and financial targets**
- **Track record of management and underwriters**

Key Takeaways

- Best's Performance Assessment is not a credit rating
- Best's Performance Assessment for Delegated Underwriting Authority Enterprises provides insight to the insurance industry when considering collaboration with these service providers
- The assignment of a Performance Assessment follows the summation of the sub-assessments for each component
- Comment period ends May 3, 2021

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