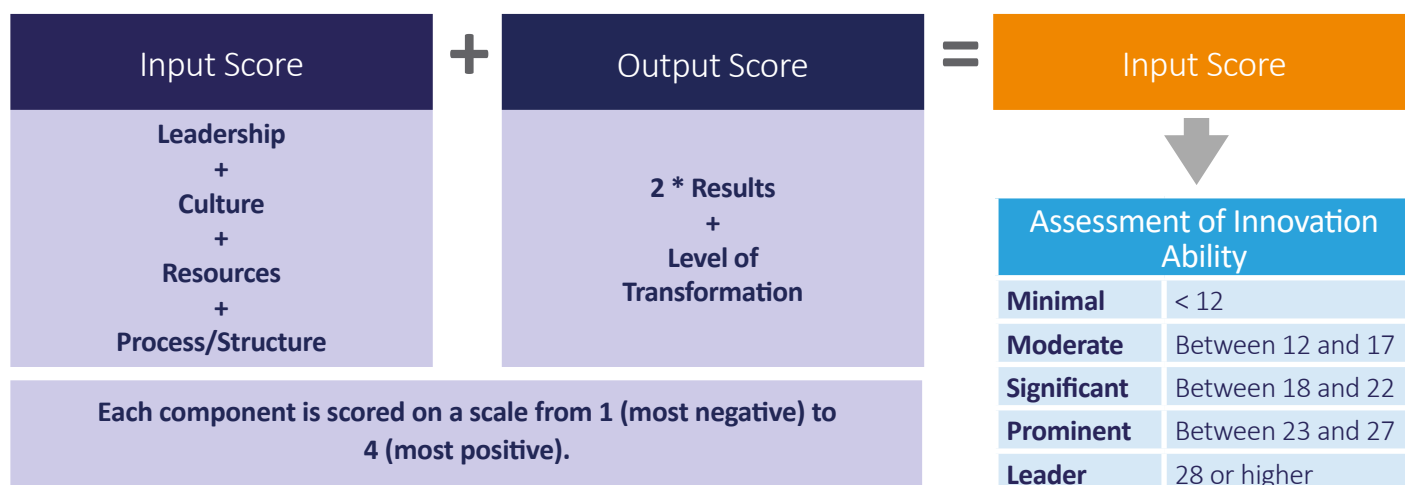


On March 5, 2020 AM Best released their new criteria, “Scoring and Assessing Innovation”, as well as the revised Best’s Credit Rating Methodology (BCRM). The rating agency has gone through two rounds of requests for comments on the criteria since March 2019, which resulted in refining some language in order to increase transparency of the criteria.

There is no change to the innovation score formula of input score plus output score.



The input score consists of four components: leadership, culture, resources, and process/structure. The output score consists of two components: results and level of transformation. Each of the components will still be measured on a scale from 1 (most negative) to 4 (most positive). After calculating a score, AM Best translates that score into one of five assessments of innovation ability. These were revised in the second draft that was released in September 2019 and have descriptors to explain a company’s level of innovation. The innovation score is an absolute assessment of a company’s level of innovativeness. All companies will be given an innovation assessment.

Innovation’s Role Within the BCRM

Within the BCRM innovation is the ninth component of the business profile building block. Here innovation is viewed in the context of circumstances unique to the company such as size, geographic reach, line of business expertise etc.



Smaller companies may benefit from buying innovative solutions rather than spending resources on think tanks to invent new innovative tools. Larger global companies with bigger budgets may see the benefit of investing in early stage ventures in order to capture a proprietary innovative technology before competitors. After evaluating the innovation of a company the analyst will determine if innovation is positive, neutral, or negative. This is similar to how the other eight components of business profile work, according to the size and scope of each individual rated entity.

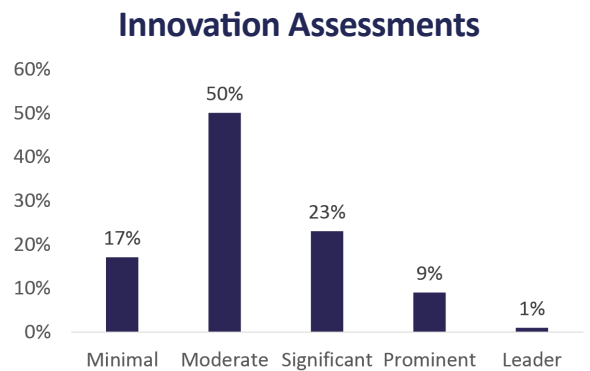
BCRM Innovation Component Assessment		
Positive	Neutral	Negative
The company's innovation efforts provide it with tangible benefit.	The company's innovation efforts or lack thereof have limited/ no impact.	The company's innovation efforts or lack thereof have a negative impact on the company.

Innovation Scores Will Not Be Published

Originally AM Best indicated that the innovation scores would be made public upon final release and implementation of the criteria. The scores will not be published; however, the score will be communicated to companies during their annual rating meeting. The analyst team will discuss the input and output components and their assessment of the innovation score. This assessment, just like the other building blocks will be discussed and voted on at the annual rating committee. The finalized innovation score will be included in the Presidents Letter communication.

AM Best P&C Industry Innovation Assessments

AM Best recently published Special Reports on Innovation Benchmarking, capability assessment profiles, assessment profiles, and innovation by line of business. These reports used preliminary data and relied on discussions with companies to arrive at the innovation scores. Only one percent of all rated property and casualty companies were assessed at "leader" with fifty percent in the "moderate" category. Higher rated companies showed higher innovation scores as they were able to obtain tangible results with a sustainable competitive advantage. Companies with larger financial size skewed toward higher innovation scores since they have more capital for innovation budgets. When analyzing line of business, the auto line has the highest innovation scores. Given the highly competitive nature the use of technology has driven changes in the way the risk is priced. The relatively short tail of the business allows for experimentation with quicker outcomes.



Preparation for Future Rating Meetings

In preparation for annual rating meetings, companies should aim to show measurable impacts as a result of innovation initiatives. The importance of innovation will increase in the future as results from implementing innovation may take time to show in financial results. Companies that fail in the minimal innovation assessment for many years may find themselves facing negative ratings pressure. This will not be solely because of the innovation assessment, but because in failing to innovate, their operating performance and any competitive advantages will be diminished over time.

The BMS Capital Management team can assist you with preparing for rating meetings and help you craft a clear and impactful presentation that shows your innovative leadership.