



Assessing the Financial Strength of Fronting Companies

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Presented by:

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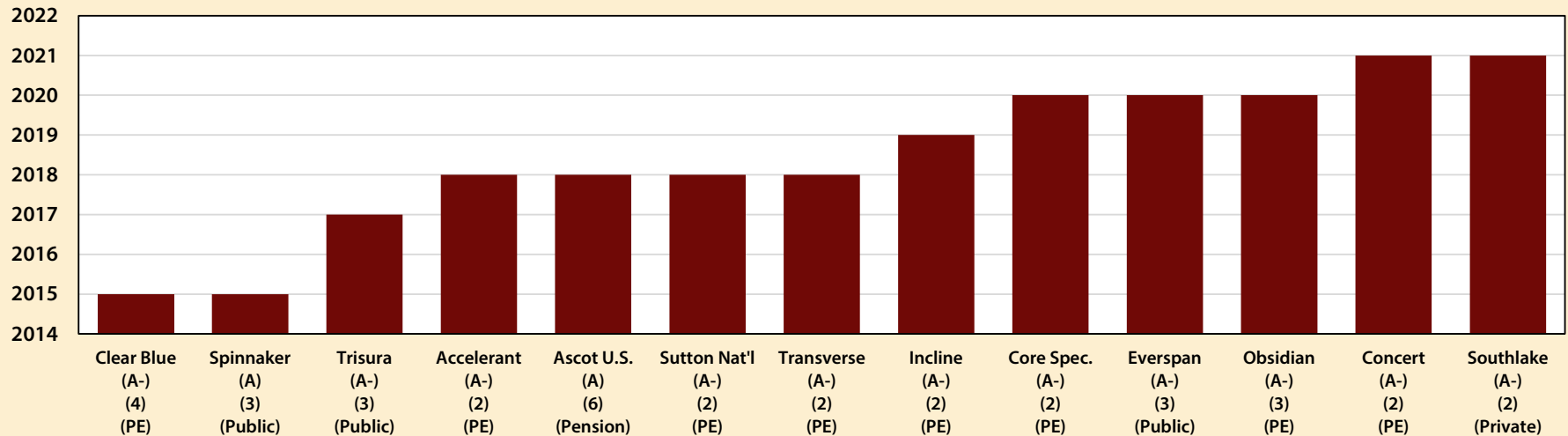
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ALIRT INSURANCE RESEARCH, LLC

- Provides private credit analytics on the life, property & casualty, and health industries
- Located in Windsor, CT
- Years in Business: 23
- Principals have worked together providing credit oversight on insurers for the past 30 years
- Produces quarterly financial analyses on approximately 500 Life, 1,700 P&C, and 450 managed care insurers (U.S.); foreign analyses includes Bermuda, Lloyds, and London Market insurers.
- Analysis generated by running statutory and GAAP financials through a proprietary model that screens for relative financial strength
- Clients: distributors of insurance products, end users of insurance products, asset managers, boards of directors, insurers
- Purpose 1: to “get below” the public ratings in order to more accurately determine the *relative* financial strength and weakness of insurers
- Purpose 2: Act as the outsourced due diligence staff for our agency/broker clients.

Growth of Fronting Insurers

Fronting Insurance Groups - Entrants Over the Last Decade



- 13 insurance groups with fronting operations were established over the past 9 years
- These involve both de novo insurers and acquisitions, almost always with admitted and E&S capabilities.
- This is part of a broader movement towards specialty commercial insurance over the past decade, accelerating with the firm/hard market of the past 3-4 years.
- Access to private equity and cheap debt has spurred a number of these start-ups.
- These groups find traction within the program/MGA space given exits or dialing back of traditional insurers
- AM Best liberal with A- ratings out of the block. Capital level and experienced management key.

Growth of Fronting Insurers

From Trisura Specialty Insurance Company's 2021 MD&A

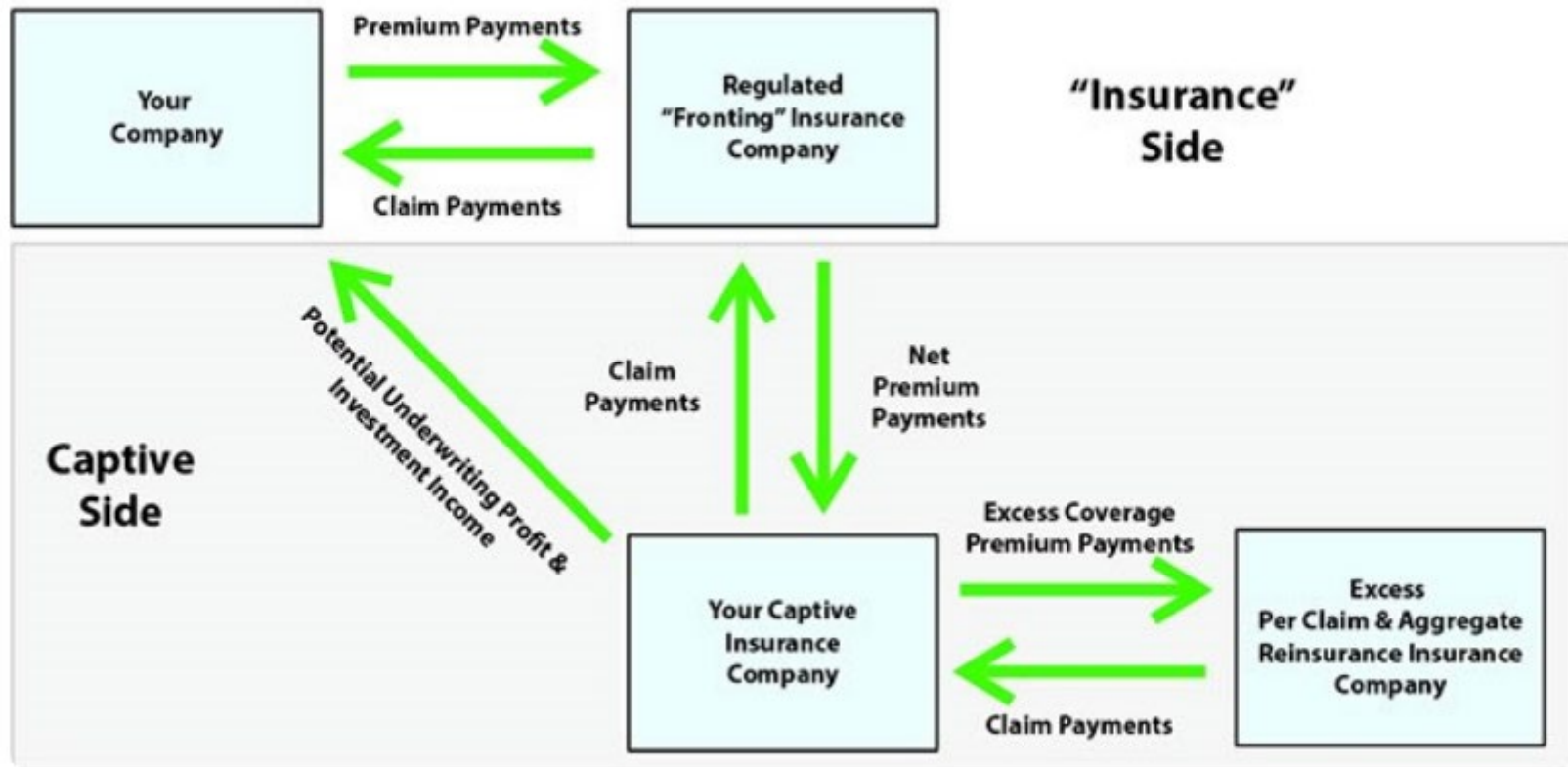
- *“It is our belief that conditions are favorable for our continued growth ... From our business activity to date, program administrators welcome our new capacity as there is currently a lack of carriers and the products and arrangements currently offered to them by the existing market do not always meet the needs of their business and clients.”*
- *“We continue to believe there is a strong supply of highly rated international reinsurers keen to gain exposure to this business, allowing the Company to ceded risk on its policies to these reinsurers on commercially favorable terms. This has been supported by our experience in the market through 2021.”*
- *“We are confident that this platform will continue to generate attractive stable fee income while maintaining some risk position, limiting underwriting risk, and aligning our interest with our program distribution partners and reinsurers.”*

Fronting Business: Definition

- Fronting is a reinsurance arrangement between a regulated primary (“issuing”) insurer and a reinsuring entity, often an offshore unauthorized (re)insurer, captive or unrated (or poorly rated) U.S. insurer.
- The fronting arrangement allows entities that cannot underwrite risks in the U.S. market (either legally or due to inadequate ratings) to access the market. MGAs and their reinsurance partners are often involved in such fronting arrangements.
- The fronting company may either cede all of the risk it underwrites (“pure front”) or retain some of the risk (“hybrid front”). For this it receives a fronting fee which is some % of the gross business written (traditionally 5-8%).
- Some hybrid fronts have become more active in overseeing/designing MGA programs (or even owning them); some may even provide platforms to facilitate programs. Sometimes called “active “ or “platform” fronts.
- **Importantly, the fronting company – as the insurer named on the declarations page of the insurance policy – retains legal responsibility to pay claims even if the reinsuring entity becomes insolvent or refuses to pay.**

Fronting Business: Definition

How money flows in Captive Insurance Companies



Source: stopbeingfrustrated.com

Fronting Business: Establishing Cohorts

- Many U.S. and international insurers groups, including subsidiaries of some of the largest (re)insurance names, may act as fronts on a periodic basis.
- This particular study looks at insurer groups that have a specialty in fronting.
- To determine this we looked at two primary factors:
 1. We started with internal lists of fronting insurers from both BMS and ALIRT.
 2. For each candidate we did a web search on “fronting” to see if the insurance group had a dedicated section on this service.
 3. We then took a look at the amount of gross premium reinsured to third-party entities, with higher cessions often related to fronting activity.

Fronting Insurers – Two Categories

In this presentation we address two Categories of Fronting Insurers:

➤ National Specialty Group

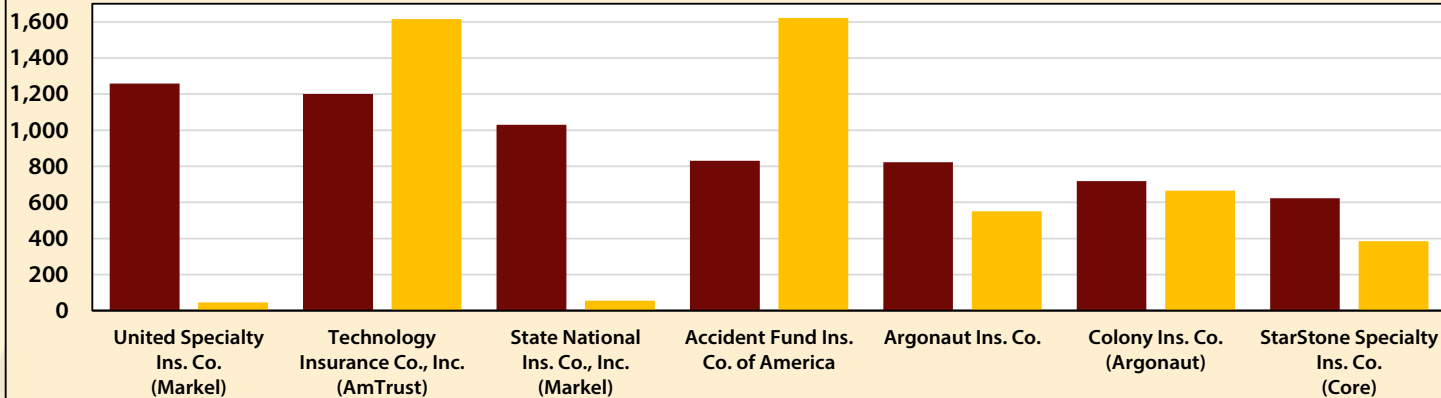
- Accident Fund Insurance Company of America (AF Specialty)
- AmeriTrust Group (Fosun)
- AmTrust/Republic Underwriters
- Argonaut/Colony
- Core Specialty/StarStone
- James River/Falls Lake
- Palomar
- Markel/State National
- Trean/Benchmark

➤ Start-Ups

- Accelerant (2 insurers)
- Accredited Specialty (1)
- Ascot (6)
- Clear Blue (3)
- Concert Insurance (2)
- Everspan/Ambac (3)
- Incline (2)
- Obsidian (2)
- Southlake (2)
- Spinnaker (2)
- Sutton (2)
- Transverse (2)
- Trisura (3)

Fronting Insurers Premiums – National Specialty

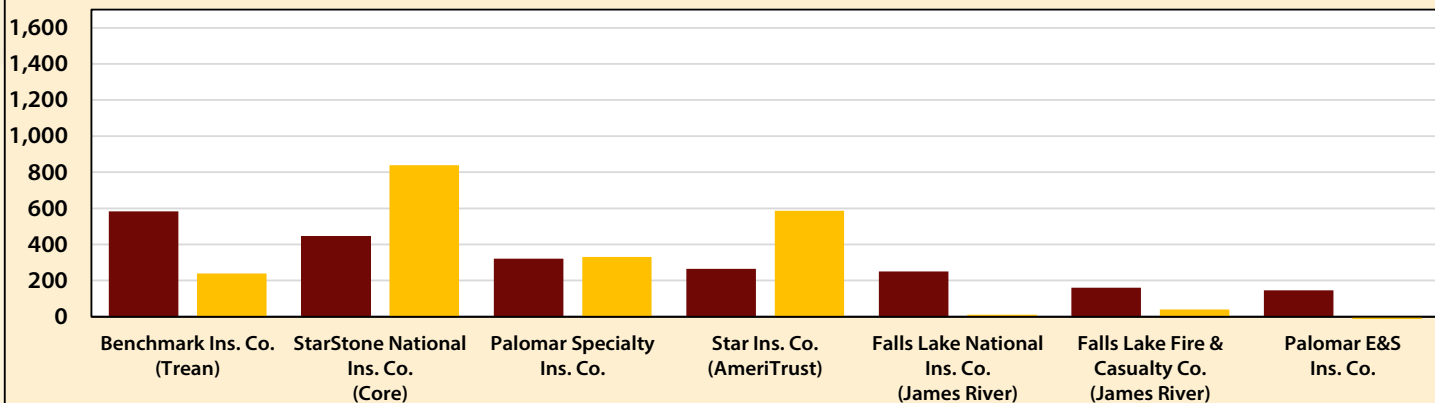
Fronting Insurers - National Specialty - Direct and Net Premium (\$MM - 2021)



2021 DPW

\$8.8 billion
Industry = \$788 billion

Fronting Insurers - National Specialty - Direct and Net Premium (\$MM - 2021)

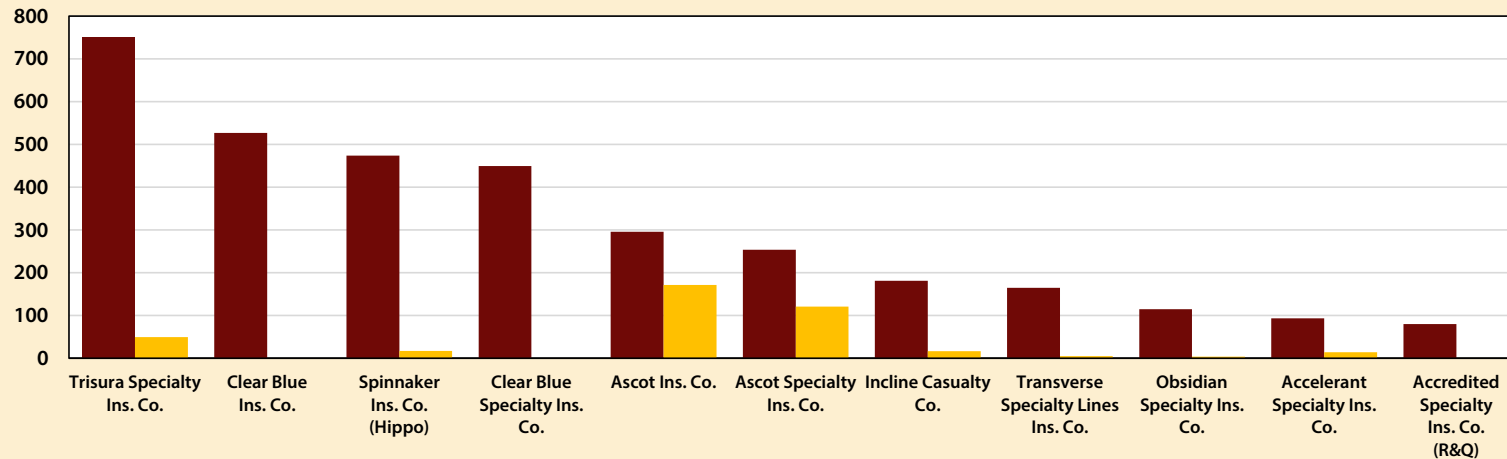


2021 NPW

\$6.9 billion
Industry = \$712 billion

Fronting Insurer Premiums – Start-Ups

Fronting Insurers - Start Ups - Direct and Net Premium (2021)



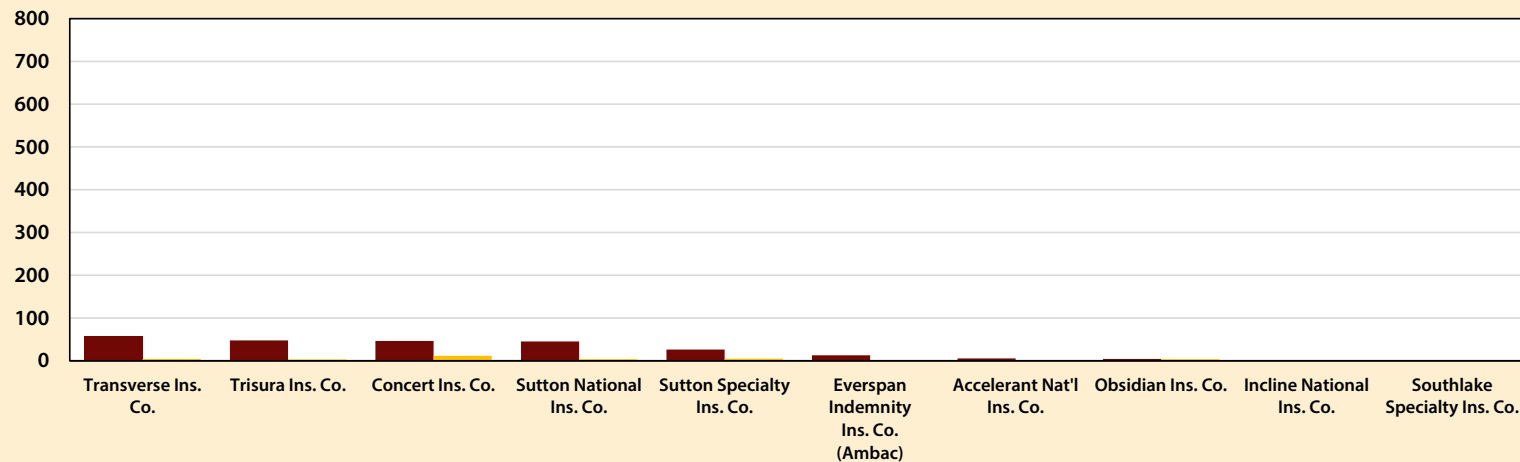
2021 DPW

\$3.6 billion
Industry = \$788 billion

2021 NPW

\$0.4 billion
Industry = \$712 billion

Fronting Insurers - Start Ups - Direct and Net Premium (2021)



Fronting Business: Analytical Issues


1. Intercompany Pooling Arrangements
2. Assumption of Underwriting Risk – Pure Front or Hybrid Front
3. Reinsurance
 1. Affiliated?
 2. Concentration?
 3. Authorized/Unauthorized – Collateral
4. Vetting the Program – How Well Does the Fronting Company Understand the Risks Being Underwritten?

Importantly, the fronting company – as the insurer named on the declarations page of the insurance policy – retains legal responsibility to pay claims even if the reinsuring entity becomes insolvent or refuses to pay.


Analytical Issue #1: Intercompany Pool

- Is the fronting carrier a member of a retail intercompany pool? There are pluses and minuses to this: greater geographical and risk diversification, but if one part of a group suffers masses losses, it can overshadow any “good” program/fronting results.


ALERT Analysis

YE2021 

Five Year Trends

YE2021 

Tear Sheets

YE2021 

Accident Fund Insurance Company of America (10166)
Parent Company: Blue Cross and Blue Shield of Michigan


Premiums By Line and By State 

CHART DATA TABLE INSURER POOL

Accident Fund Pool

NAIC	Name	Type*	%	DWP (\$MM)	NWP (\$MM)	ALERT Score
10166	Accident Fund Insurance Company of America	A	99.0%	831	1,621	54
12177	CompWest Insurance Company	A	1.0%	158	0	40
12304	Accident Fund General Insurance Company	A	0.0%	414	0	38
12305	Accident Fund National Insurance Company	A	0.0%	177	0	37
10713	Third Coast Insurance Co.	E&S	0.0%	263	0	N/M
29157	United Wisconsin Insurance Company	A	0.0%	392	0	37

*Insurer Type: A = Admitted, E&S = Excess & Surplus Lines, RRG = Risk Retention Groups, M = Mixed
"Mixed" refers to a company that has significant licensure as both an Admitted and Excess & Surplus Lines Insurer.

Analytical Issue #1: Intercompany Pool

State National Insurance Company, Inc. (12831)

Parent Company: Markel Corporation

ALIRT Analysis

YE2021



Five Year Trends

YE2021



Tear Sheets

YE2021



Premiums By Line and By State

[CHART](#) [DATA TABLE](#) [INSURER POOL](#)

Markel Corp: State National Pool

NAIC	Name	Type*	%	DWP (\$MM)	NWP (\$MM)	ALIRT Score
12831	State National Insurance Company, Inc.		30.0%	1,030	56	63
12537	United Specialty Insurance Company		25.0%	1,258	47	58
22608	National Specialty Insurance Company		15.0%	299	28	62
39640	Independent Specialty Insurance Company		10.0%	201	19	62
16551	Superior Specialty Insurance Company		10.0%	15	19	64
41335	City National Insurance Company		5.0%	45	9	64
21296	Pinnacle National Insurance Company		5.0%	1	9	63

*Insurer Type: A = Admitted, E&S = Excess & Surplus Lines, RRG = Risk Retention Groups, M = Mixed
"Mixed" refers to a company that has significant licensure as both an Admitted and Excess & Surplus Lines Insurer.

Analytical Issue #1: Intercompany Pool

Republic Underwriters Insurance Company (24538)

Parent Company: AmTrust Financial Services, Inc.

ALIRT Analysis

[Learn More](#)

Five Year Trends

[Learn More](#)

Tear Sheets

[Learn More](#)

Review Letter

[Learn More](#)

INSURER POOL

This insurance subsidiary retains no premium as part of an intercompany pool, therefore we are unable to produce a meaningful ALIRT Analysis for it. Please see the lead pool writer as a credit proxy.

AmTrust U.S. Pool

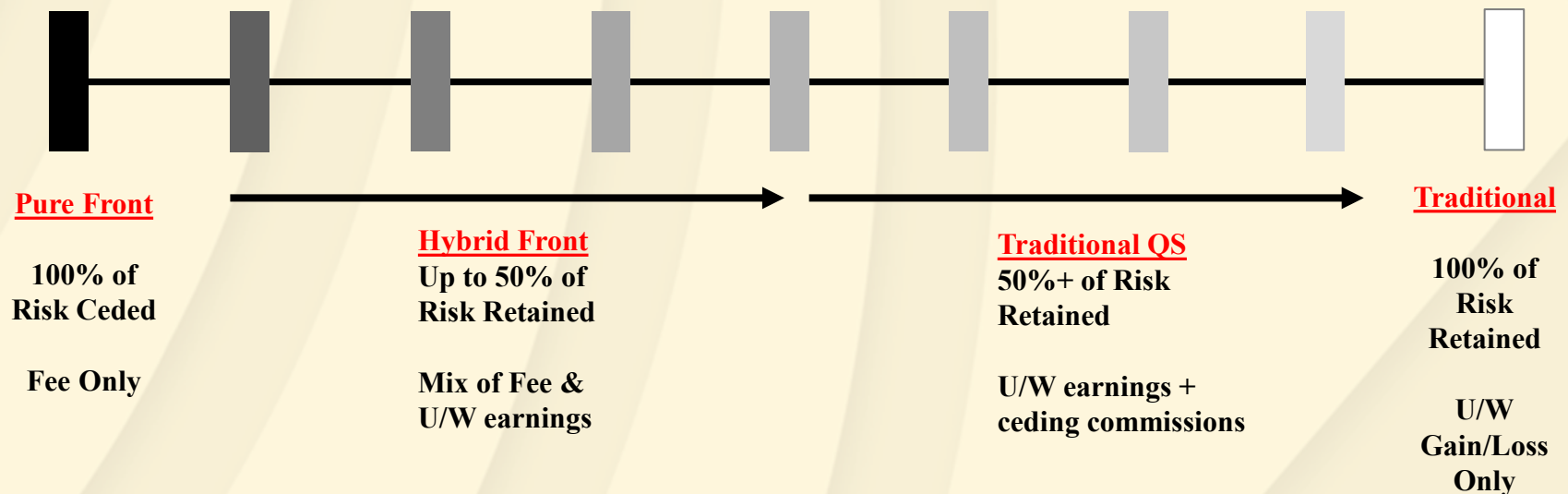
NAIC	Name	Type*	%	DWP (\$MM)	NWP (\$MM)	ALIRT Score
42376	Technology Insurance Company, Inc.	A	58.0%	1,202	1,616	49
25011	Wesco Insurance Company	A	22.0%	2,266	559	37
19879	Security National Insurance Company (TX)	A	12.0%	558	349	39
12718	Developers Surety and Indemnity Company	A	8.0%	23	192	42
15954	AmTrust Insurance Company of Kansas	A	0.0%	309	0	N/M
13900	ARI Insurance Company	A	0.0%	140	0	N/M
23140	Associated Industries Insurance Company, Inc.	E&S	0.0%	614	0	N/M
10499	CorePointe Insurance Company	A	0.0%	76	0	54
10859	First Nonprofit Insurance Company	A	0.0%	5	0	N/M
39527	Heritage Indemnity Company	A	0.0%	64	0	N/M
37680	Lancer Insurance Company of New Jersey	A	0.0%	22	0	N/M
26662	Milford Casualty Insurance Company	A	0.0%	46	0	N/M
24538	Republic Underwriters Insurance Company	A	0.0%	0	0	N/M
12491	Rochdale Insurance Company	A	0.0%	-3	0	N/M
22985	Sequoia Insurance Company	A	0.0%	98	0	N/M

*Insurer Type: A = Admitted, E&S = Excess & Surplus Lines, RRG = Risk Retention Groups, M = Mixed
"Mixed" refers to a company that has significant licensure as both an Admitted and Excess & Surplus Lines Insurer.

Analytical Issue #2: Assumption of Risk

- Is the fronting carrier a pure or hybrid front? If hybrid, how much underwriting risk is being assumed and what are the underwriting results for that assumed risk?

Spectrum Approach To Fronting



Analytical Issue #2: Assumption of Risk

ALIRT INSURANCE RESEARCH P&C FINANCIAL STRENGTH RATIOS Clear Blue Insurance Company

TIER 1 - OPERATIONAL PERFORMANCE

YEAR	CAPITALIZATION AND LEVERAGE					UNDERWRITING PROFITABILITY AND EARNINGS								REINSURANCE	
	TOTAL SURPLUS (\$ MNS.)	5 YR. SURPLUS GROWTH	RISK BASED-CAPITAL RATIO	SURPLUS STABILITY TEST	GROSS PREMIUM LEVERAGE	NET PREMIUM LEVERAGE	LOSS RATIO	EXPENSE RATIO	COMBINED RATIO	ACC. YEAR COMBINED RATIO	OPERATING RATIO	PRETAX RETURN ON EARNED PREMIUMS	BUSINESS DIVERSIFICATION	UNAFFILIATED COS. ONLY REINS. CEDED AS % RECOVER / SURPLUS	OF GROSS PREM'S
2017	46	8%	407%	0.0%	2.76	0.00	N/A	N/A	N/A	N/A	N/A	N/A	2.0	231%	0%
2018	48	13%	180%	0.0%	7.94	0.00	N/A	N/A	N/A	N/A	N/A	N/A	3.0	644%	100%
2019	47	7%	148%	0.0%	9.81	(0.00)	N/A	N/A	N/A	N/A	N/A	N/A	3.0	914%	96%
2020	72	302%	199%	0.7%	6.94	(0.00)	N/A	N/A	N/A	N/A	N/A	N/A	2.0	766%	98%
2021	106	283%	228%	0.7%	4.97	(0.00)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	691%	98%
COMMER'L LINES COMP.	1,885	28%	245%	25.8%	1.43	0.77	68%	29%	97%	98%	87%	11.6%	2.0	30%	13%

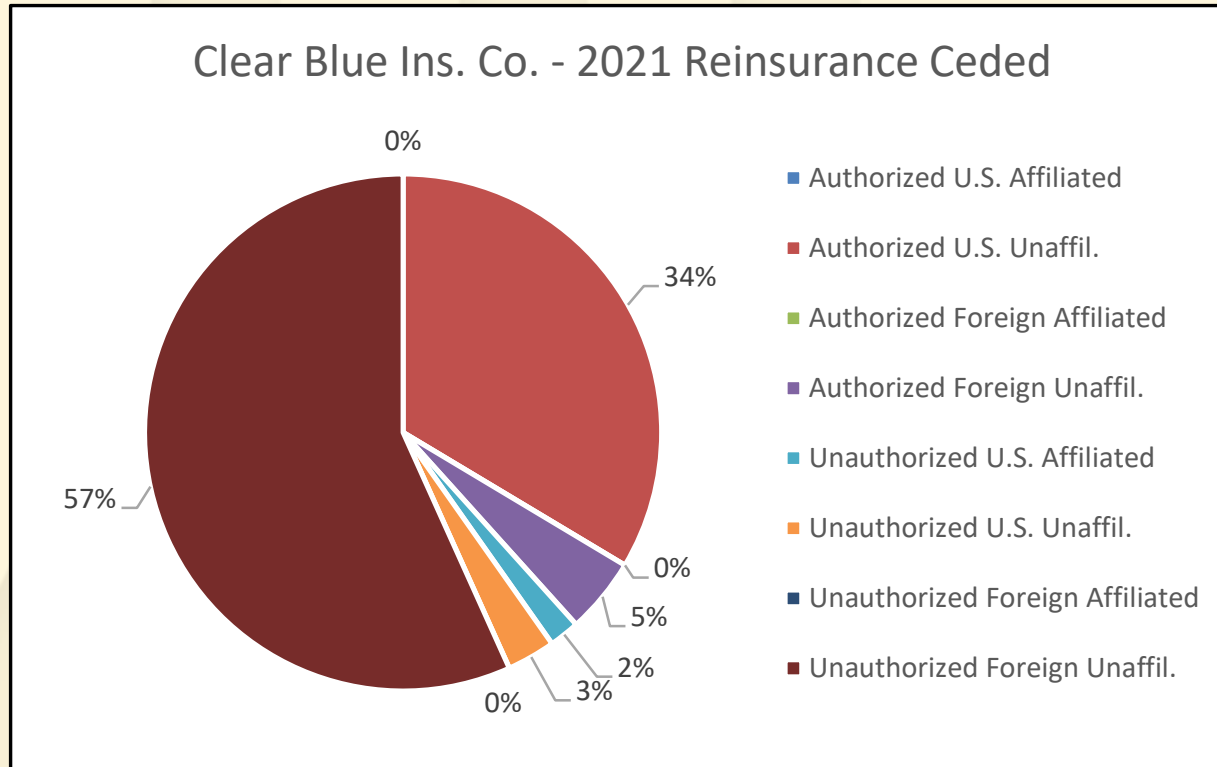
ALIRT INSURANCE RESEARCH P&C FINANCIAL STRENGTH RATIOS Colony Insurance Company

TIER 1 - OPERATIONAL PERFORMANCE

YEAR	CAPITALIZATION AND LEVERAGE					UNDERWRITING PROFITABILITY AND EARNINGS								REINSURANCE	
	TOTAL SURPLUS (\$ MNS.)	5 YR. SURPLUS GROWTH	RISK BASED-CAPITAL RATIO	SURPLUS STABILITY TEST	GROSS PREMIUM LEVERAGE	NET PREMIUM LEVERAGE	LOSS RATIO	EXPENSE RATIO	COMBINED RATIO	ACC. YEAR COMBINED RATIO	OPERATING RATIO	PRETAX RETURN ON EARNED PREMIUMS	BUSINESS DIVERSIFICATION	UNAFFILIATED COS. ONLY REINS. CEDED AS % RECOVER / SURPLUS	OF GROSS PREM'S
2017	424	29%	180%	27.0%	1.60	0.67	57%	37%	94%	101%	83%	7.7%	1.0	78%	23%
2018	444	37%	188%	27.6%	1.68	1.02	62%	31%	93%	97%	84%	11.6%	1.0	104%	25%
2019	483	51%	160%	28.4%	1.78	1.16	69%	31%	100%	101%	91%	5.9%	1.0	107%	30%
2020	513	47%	156%	31.2%	1.77	1.22	70%	28%	98%	100%	90%	8.7%	1.5	114%	30%
2021	607	64%	150%	31.9%	1.56	1.10	77%	28%	105%	100%	99%	-0.2%	N/A	92%	29%
COMMER'L LINES COMP.	1,885	28%	245%	25.8%	1.43	0.77	68%	29%	97%	98%	87%	11.6%	2.0	30%	13%

Analytical Issue #3: Reinsurer Counterparties

Reinsurance: Affiliated – Concentration – Authorized/Unauthorized



108 counterparties, \$527 million of premium ceded

Analytical Issue #3: Reinsurer Counterparties

Reinsurance: Concentration? Collateral?

Clear Blue Insurance Company - Reinsurers - 2021

Largest Counterparties	Name	Prem. Ceded \$000's	% of Total	Collateral	
				Total	Type
U.S. Unaffiliates	Swiss Reinsurance America Corp.	87,375	17%		
	Frank Winston Crum Ins. Co.	23,092	4%	38,036	Trusts
	Digital Advantage Ins. Co.	21,302	4%	7,757	Funds Held, Ceded Balances
	General Reins. Corp.	12,417	2%		
	Renaissance Reins. U.S. Inc.	10,539	2%		
U.S. Affiliates	Clear Blue Re	10,204	2%	14,567	Trusts, Funds Held, CBs
Foreign Unaffiliates	Hannover Ruck SE	11,312	2%		
	QEO Inc. Cell Ins. Co.	10,327	2%	11,761	Trusts, Funds Held
	General Ins. Corp. of India	131,795	25%	144,399	LOCs
	Topsail Reins. SPC, Ltd.	10,741	2%	10,240	LOCs and Trusts
	Qatar Reins. Co. Ltd.	92,070	17%	171,568	LOCs
	Arch Reins. Ltd.	12,281	2%	12,448	LOCs
	Total	527,304	82%		

108 counterparties, \$527 million of premium ceded

Analytical Issue #4: Vetting the Program

- Who controls the primary insurance program?
 - *Actuarial*
 - *Underwriting*
 - *Claims Handling*
 - *Compliance, legal, issuance, etc.*
- What oversight/audit procedures does the fronting insurer have in place?
- What is the relationship between the reinsurer and the fronting company?
 - *Importantly, how are the proper level of reserves agreed upon?*
- Is the front auditing the amount and quality of reinsurance recoverable collateral, if required?
- Role of new rating DUAEs in helping fronting insurers vet their program partners?

Putting It All Together – ALIRT Analysis

ALIRT INSURANCE RESEARCH P&C FINANCIAL STRENGTH RATIOS

ABC Property Casualty Insurance Company

TIER 1 - OPERATIONAL RISK

YEAR	◆ CAPITALIZATION AND LEVERAGE						■ UNDERWRITING PROFITABILITY AND EARNINGS							▲ REINSURANCE		
	TOTAL SURPLUS (\$ MNS.)	5 YR. SURPLUS GROWTH	RISK BASED-CAPITAL RATIO	SURPLUS STABILITY TEST	GROSS PREMIUM LEVERAGE	NET PREMIUM LEVERAGE	LOSS RATIO	EXPENSE RATIO	COMBINED RATIO	ACC. YEAR COMBINED RATIO	OPERATING RATIO	PRETAX RETURN ON EARNED PREMIUMS	BUSINESS DIVERSIFICATION	UNAFFILIATED COS. ONLY		
														REINS. RECOVER/ SURPLUS	CEDED AS % OF GROSS PREM'S	
2002	5,116	-5%	169%	52.3%	1.73	1.38	76%	28%	105%	109%	59%	33.2%	2.5	158%	18%	
2003	6,046	2%	146%	58.1%	1.77	1.22	117%	31%	149%	109%	123%	-37.7%	3.0	169%	30%	
2004	6,815	2%	170%	53.0%	1.35	1.03	78%	27%	106%	102%	89%	5.2%	3.0	143%	15%	
2005	6,743	6%	165%	60.8%	1.31	1.00	94%	29%	124%	107%	92%	5.2%	3.5	113%	13%	
2006	7,939	69%	188%	54.7%	1.11	0.86	81%	28%	109%	106%	83%	13.3%	3.0	75%	11%	
9/2007	8,246	63%	N/A	53.1%	1.06	0.79	82%	29%	111%	104%	78%	19.3%	N/A	N/A	N/A	
COMMER'L LINES COMP.	1,235	113%	241%	19.2%	1.21	0.61	64%	27%	92%	92%	75%	22.8%	2.0	37%	9%	

TIER 1 - OPERATIONAL RISK (continued)

YEAR	RESERVES			REVENUE VITALITY AND LIQUIDITY			
	COMPL. LONG-TAIL RESERVES/ TOTAL RESERVES	# OF YRS. OF LAST 5 WITH RELEASES	ONE YEAR RESERVE DEVELOP. TO SURPLUS	OPERATING CASH FLOW RATIO	UNDERWRIT. CASH FLOW RATIO	ANNUAL % CHANGE EARNED PREMIUMS	TOTAL LIQUIDITY
2002	79.4%	1	-4.1%	235.1%	159.2%	98.4%	91%
2003	83.4%	1	38.6%	120.3%	101.4%	2.5%	95%
2004	81.8%	1	3.7%	118.4%	105.9%	12.1%	96%
2005	81.4%	1	15.3%	171.2%	133.5%	-8.5%	79%
2006	82.6%	1	2.4%	152.0%	121.7%	-2.1%	82%
9/2007	N/A	0	5.0%	133.8%	100.4%	-3.2%	N/A
COMMER'L LINES COMP.	81.2%	0	-0.4%	141.2%	114.5%	1.8%	141%

TIER 2 - INVESTMENT RISK

YEAR	INVESTMENT RISKS				INVESTMENT PERFORMANCE			
	UNAFFIL. STOCKS/ SURPLUS	AFFIL. INVEST./ SURPLUS	NON-INV. GRADE BONDS/ SURPLUS	CMO'S & OTHER ABS/ SURPLUS	WEIGHTED MATURITY (YEARS)	GROSS YIELD ON BONDS	NET YIELD ON INVEST. ASSETS	TOTAL RETURN ON INVEST. ASSETS
2002	11%	49%	38%	81%	11.61	5.58%	14.41%	3.14%
2003	7%	52%	21%	94%	12.56	5.33%	6.26%	6.50%
2004	6%	58%	24%	88%	11.53	5.24%	4.02%	8.24%
2005	10%	49%	29%	167%	15.20	4.89%	6.71%	5.64%
2006	25%	50%	31%	149%	12.95	5.58%	5.06%	7.01%
9/2007	30%	46%	36%	N/A	N/A	N/A	5.68%	4.67%
COMMER'L LINES COMP.	30%	51%	4%	34%	7.64	4.31%	4.40%	7.02%

TIER 3 - FINANCIAL RISK - HOLDING COMPANY ANALYSIS

YEAR	STRATEGIC VALUE		FINANCIAL FLEXIBILITY & LIQUIDITY				LEVERAGE, COVERAGE, AND PROFITABILITY		
	STATUTORY INS. CO. AS A % OF TOTAL ORGANIZATION		TOTAL REVENUE (\$ MNS.)	ANNUAL % CHANGE IN TOTAL REVENUE	OPERATING CASH FLOW/ MARKET VAL.	STOCK MARKET VAL. / BOOK VAL.	LIQUID ASSETS AS % OF TOTAL ASSETS	DEBT/ EQUITY RATIO	ANNUAL % CHANGE IN PRETAX OPERATING EARNINGS
2002	41.0%	54.4%	12,286	-6.9%	8.5%	60.9%	57.0%	24.4%	N/A
2003	50.5%	67.5%	11,716	-4.6%	15.0%	60.2%	56.1%	21.3%	N/A
2004	54.7%	74.0%	9,930	-15.2%	16.2%	74.4%	60.2%	24.5%	N/A
2005	61.1%	75.3%	9,862	-0.7%	22.0%	93.6%	64.5%	18.9%	-67%
2006	63.4%	81.3%	10,376	5.2%	21.7%	112.0%	69.7%	22.1%	885%
9/2007	67.2%	81.5%	9,960	-4.0%	9.5%	105.6%	69.2%	21.3%	-16%
COMMER'L LINES COMP.	5.3%	24.2%	4,439	1.9%	20.0%	123.4%	59.0%	23.0%	7%

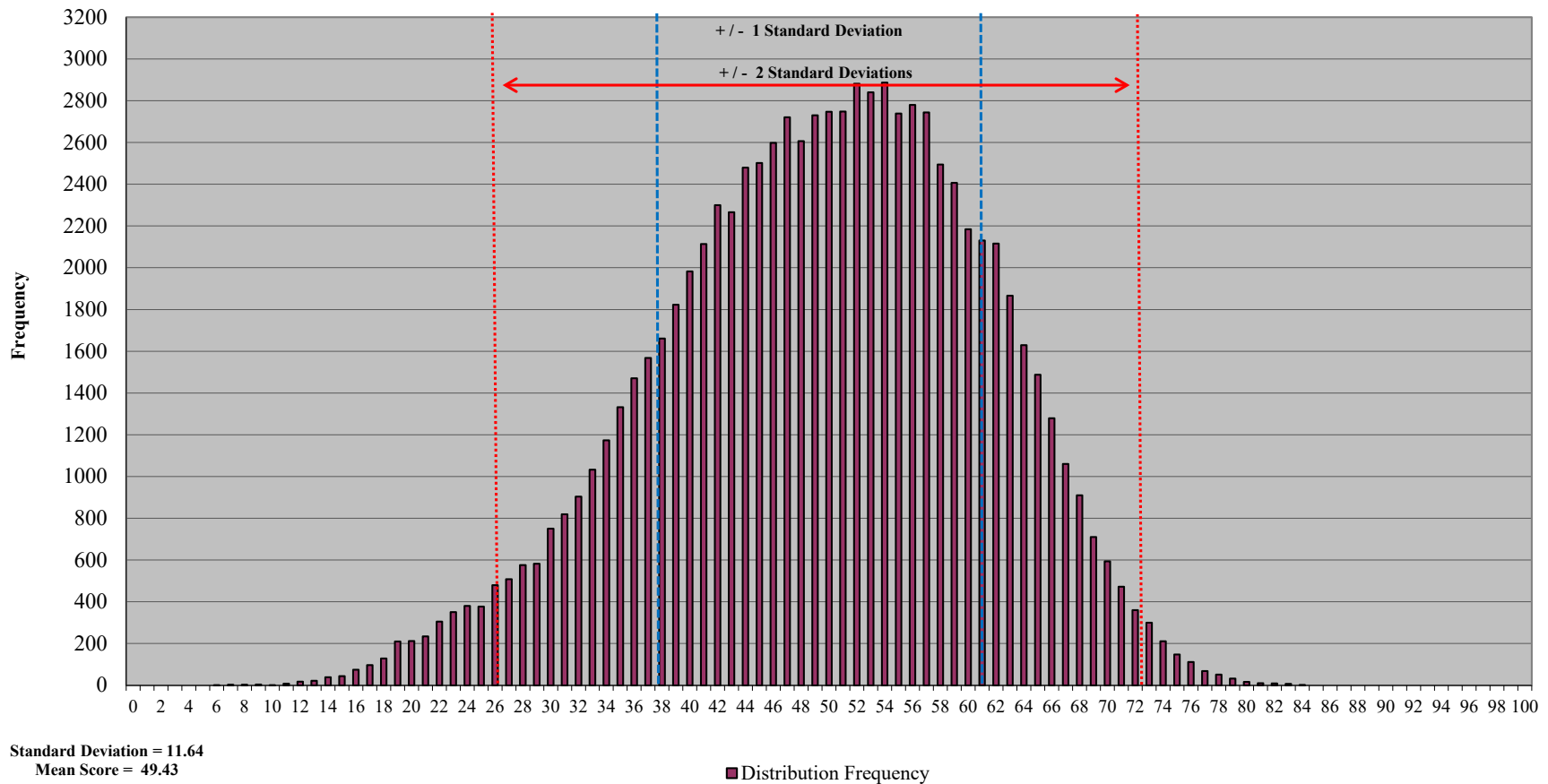
TIER 4 - SIZE & RATINGS

IN \$ MNS.

ABC Property Casualty Insurance Company										TIER 3 - GROUP PERFORMANCE									
TIER 1 - OPERATIONAL PERFORMANCE										TIER 3 - GROUP PERFORMANCE									
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Putting It All Together – ALIRT Analysis

P&C ALIRT Score Distribution (2002-2021)

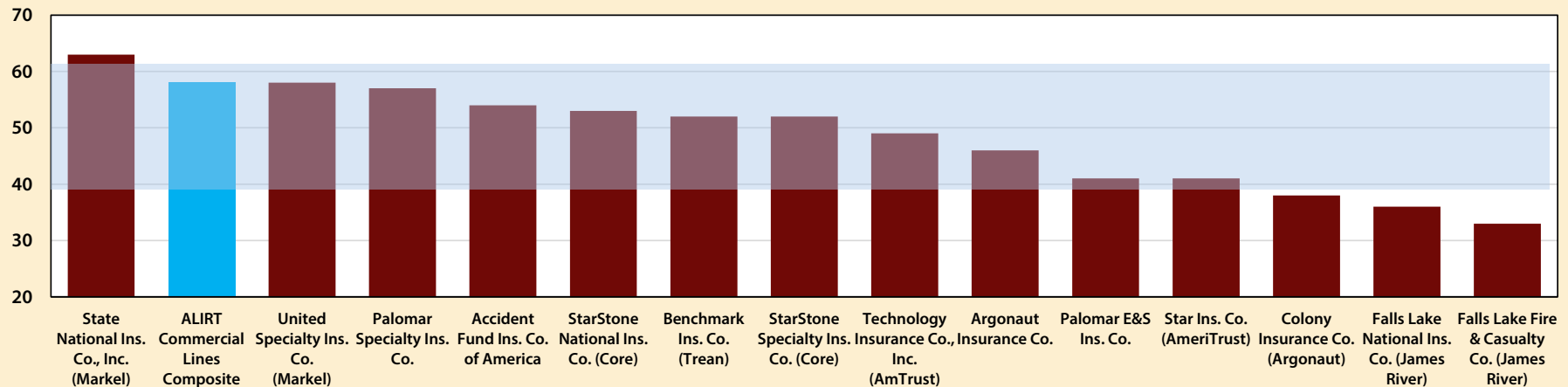


Putting It All Together – ALIRT Analysis

➤ National Group, Pooled

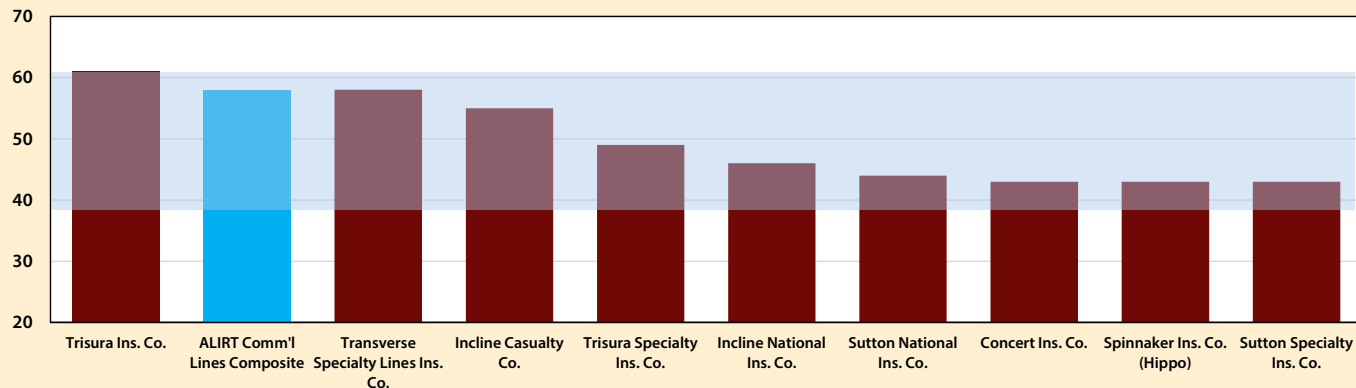
- Accident Fund Insurance Company of America (AF Specialty)
- AmeriTrust Group (Fosun)
- AmTrust/Republic Underwriters
- Argonaut/Colony
- Core/StarStone
- James River/Falls Lake
- Markel/State National
- Palomar
- Trean/Benchmark

Fronting Insurers - National Specialty - 2021 ALIRT Score



Putting It All Together – ALIRT Analysis

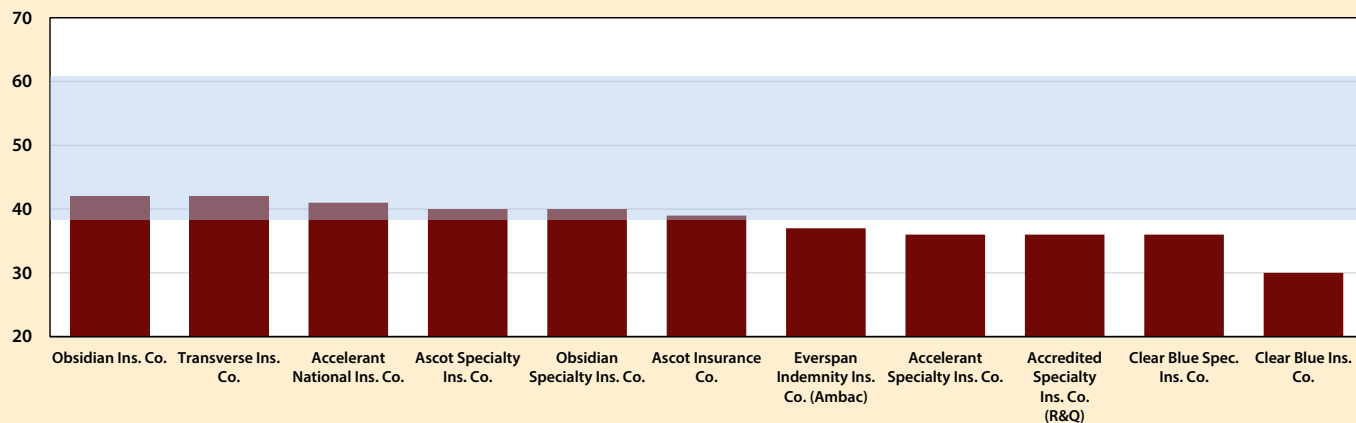
Fronting Insurers - Start Ups - 2021 ALIRT Score



Start-Ups

- Accelerant (2 insurers)
- Accredited Specialty (1)
- Ascot (2)
- Clear Blue (2)
- Concert Insurance (2)
- Everspan/Ambac (2)
- Incline (2)
- Obsidian (2)
- Southlake (2)
- Spinnaker (2)
- Sutton Nat'l (2)
- Transverse (2)
- Trisura (3)

Fronting Insurers - Start Ups - 2021 ALIRT Score



Putting It All Together – ALIRT Analysis

ALIRT INSURANCE RESEARCH P&C FINANCIAL STRENGTH RATIOS															
Trisura Specialty Insurance Company															
TIER 1 - OPERATIONAL PERFORMANCE															
YEAR	CAPITALIZATION AND LEVERAGE					UNDERWRITING PROFITABILITY AND EARNINGS							REINSURANCE		
	TOTAL SURPLUS (\$ MNS.)	5 YR. SURPLUS GROWTH	RISK BASED-CAPITAL RATIO	SURPLUS STABILITY TEST	GROSS PREMIUM LEVERAGE	NET PREMIUM LEVERAGE	LOSS RATIO	EXPENSE RATIO	COMBINED RATIO	ACC. YEAR COMBINED RATIO	OPERATING RATIO	PRETAX RETURN ON EARNED PREMIUMS	BUSINESS DIVERSIFICATION	UNAFFILIATED COS. ONLY REINS. CEDED AS % OF GROSS SURPLUS	RECOVER. OF GROSS PREMS
2017	45	N/A	HIGH	0.1%	0.00	0.00	N/A	N/A	N/A	N/A	N/A	N/A	N/A	0%	N/A
2018	51	N/A	2340%	0.6%	0.82	0.04	63%	66%	128%	128%	-60%	34.4%	1.5	38%	95%
2019	69	N/A	720%	1.2%	2.87	0.16	65%	9%	74%	74%	44%	46.6%	2.5	176%	94%
2020	116	N/A	491%	3.5%	4.06	0.19	79%	-26%	53%	52%	37%	74.2%	3.0	321%	93%
2021	127	N/A	284%	6.2%	5.90	0.39	84%	-12%	72%	61%	59%	50.5%	N/A	546%	91%
COMMER'L LINES COMP.	1,385	28%	245%	25.8%	1.43	0.77	68%	29%	97%	98%	87%	11.6%	2.0	30%	13%
TIER 1 - OPERATIONAL PERFORMANCE (continued)								TIER 2 - INVESTMENT PERFORMANCE							
YEAR	RESERVES			REVENUE VITALITY AND LIQUIDITY				INVESTMENT RISKS					INVESTMENT PERFORMANCE		
	COMM'L LONG-TAIL RESERVES/ TOTAL RESERVES	# OF YRS. OF LAST 5 WITH RESERVE RELEASES	ONE YEAR RESERVE DEVELOP. TO SURPLUS	OPERATING CASH FLOW RATIO	UNDERWRIT. CASH FLOW RATIO	ANNUAL % CHANGE EARNED PREMIUMS	TOTAL LIQUIDITY	UNAFFL. STOCKS/ SURPLUS	AFFIL. INVEST./ SURPLUS	NON-INV. GRADE BONDS/ SURPLUS	MBS & ABS/ SURPLUS	WEIGHTED MATURITY TRAD. BONDS (YEARS)	GROSS YIELD ON BONDS	NET YIELD ON INVEST. ASSETS	TOTAL RETURN ON INVEST. ASSETS
2017	N/A	0	0.0%	12.5%	0.0%	N/M	N/A	0%	0%	0%	0%	7.50	N/A	N/A	N/A
2018	83.2%	0	0.0%	249.1%	162.9%	N/M	HIGH	0%	0%	0%	0%	3.14	4.98%	2.59%	2.20%
2019	68.6%	1	0.0%	330.6%	289.8%	666.5%	2337%	0%	15%	1%	0%	3.47	2.67%	2.20%	1.97%
2020	64.1%	1	0.0%	262.1%	225.9%	202.5%	896%	15%	23%	5%	0%	3.32	2.87%	1.95%	4.48%
2021	N/A	1	2.4%	N/A	N/A	72.9%	706%	23%	38%	3%	0%	5.17	3.71%	1.69%	2.84%
COMMER'L LINES COMP.	82.5%	5	-0.7%	134.9%	119.3%	10.2%	125%	20%	40%	12%	42%	6.92	3.11%	3.22%	5.73%
TIER 3 - GROUP PERFORMANCE - HOLDING COMPANY ANALYSIS												TIER 4 - SIZE & RATINGS			
YEAR	COMPANY AS % OF GROUP		REVENUES & LIQUIDITY					LEVERAGE, COVERAGE, AND PROFITABILITY				IN \$ MNS.			
	STATUTORY INS. CO. AS A % OF TOTAL ORGANIZATION	ASSETS	TOTAL REVENUE (\$ MNS.)	ANNUAL % CHANGE IN REVENUE	OPERATING CASH FLOW/ MARKET VAL. BOOK VAL.	STOCK VAL. % OF TOTAL ASSETS	LIQUID ASSETS AS % OF TOTAL ASSETS	DEBT/ EQUITY RATIO	ANNUAL % CHANGE IN PRETAX OPERATING EARNINGS	INTEREST COVERAGE	PRETAX OPERATING ROE	NET PREM'S WRITTEN	NET PREM'S EARNED	TOTAL ASSETS	CAPITAL & SURPLUS IN FROM/ (OUT) TO PARENT
2017	100.0%	100.0%	0	N/A	-517.8%	N/A	99.9%	0.0%	N/A	N/A	N/A	0	0	45	46
2018	100.0%	100.0%	2	1354.7%	104.3%	N/A	76.3%	0.0%	N/A	N/A	0.1%	2	1	70	6
2019	100.0%	100.0%	7	246.6%	170.5%	N/A	62.2%	0.0%	5270%	N/A	3.8%	11	5	135	30
2020	100.0%	100.0%	18	168.2%	100.4%	N/A	42.5%	0.0%	454%	N/A	13.6%	22	16	283	25
2021	100.0%	100.0%	30	68.4%	212.2%	N/A	42.4%	0.0%	33%	N/A	13.8%	49	27	396	(1)
COMMER'L LINES COMP.	4.2%	24.1%	11,163	13.0%	21.1%	130.6%	55.6%	28.4%	93%	13.1	17.6%	1,795	1,726	5,245	(10,768)

Industry Surplus, Asset Size, Business Diversification, And Tier 3 Measures Are Medians For The 100 Insurers (And P&C Groups) In The ALIRT Composite.

Conclusions

- While not new, the fronting model has become more popular over the past decade with over a dozen entrants. This is part of a larger growth trend among specialty commercial insurers.
- We differentiate between two classes of fronts: those insurers (generally larger commercial specialty groups) in which fronting is a niche business versus those (“true fronts”) where fronting is the core business.
- Properly analyzing the financial profile of a fronting insurer necessitates looking at four key factors: is the fronted business part of a larger group pooling arrangement, is the fronting company taking on any underwriting risk, are the reinsurance recoverables secure, and how well is the fronted insurance program being vetted.
- ***Importantly, the fronting company – as the insurer named on the declarations page of the insurance policy – retains legal responsibility to pay claims even if the reinsuring entity becomes insolvent or refuses to pay.***