



BEST'S COMPANY REPORT



Independence American Insurance Company

INDEPENDENCE AMERICAN INSURANCE COMPANY

Domiciliary Address: 1209 Orange Street, Wilmington, Delaware 19801 United States
Administrative Office: 485 Madison Avenue, 14th Floor, New York, New York 10022-5872 United States

AMB #: 003552

NAIC #: 26581

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Best's Credit Rating Effective Date

November 03, 2022

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Information

[Best's Credit Rating Methodology](#)

[Guide to Best's Credit Ratings](#)

[Market Segment Outlooks](#)

Financial Data Presented

The financial data in this report reflects the most current data available to the Analytical Team at the time of the rating. Updates to the financial exhibits in this report are available here: [Best's Financial Report](#).

Independence American Insurance Company

AMB #: 003552 | **NAIC #:** 26581 | **FEIN #:** 74-1746542

Ultimate Parent: AMB # 045126 - JAB Holding Company s.à.r.l.

Best's Credit Ratings

Financial Strength Rating (FSR)

A-
Excellent
Outlook: Stable
Action: Affirmed

Issuer Credit Rating (ICR)

a-
Excellent
Outlook: Stable
Action: Affirmed

Assessment Descriptors

Balance Sheet Strength	Very Strong
Operating Performance	Adequate
Business Profile	Limited
Enterprise Risk Management	Appropriate

Rating Rationale

Balance Sheet Strength: **Very Strong**

- Independence American Insurance Company (IAIC) exhibits the strongest level of risk-adjusted capitalization as measured by its Best's Capital Adequacy Ratio (BCAR).
- Capital growth is supported by strong operating income and investment gains.
- Its investment portfolio is fairly conservative, with the majority of invested assets composed of investment-grade fixed-income securities and cash and short-term investments.

Operating Performance: **Adequate**

- Premium development over the last three years from sales growth of new products with prior ownership, particularly from pet insurance products, which benefited from new distribution relationships, coupled with hospital indemnity and short-term medical products.
- Positive underwriting results in 2021 driven by less capital-intensive products contributed to favorable operating results. For the first six months of 2022, both underwriting and earnings are trending lower but expected to rebound after the close of the acquisition following higher premium development.
- Net investment income, while modest, continues to steadily contribute to total operating results.

Business Profile: **Limited**

- IAIC's business profile is limited driven by the concentration in the pet business. However, the company has mitigated this by diversifying its risk product offering both in individual and group coverage.
- IAIC is well positioned to grow its market share in the pet business given its current distribution platform as well as its MGA's relationships. The company's market presence will further expand with the acquisition of Crum & Forster's pet business.

Enterprise Risk Management: **Appropriate**

- The organization has a formal enterprise risk management program, which has been in place since 2009 in prior ownership, but it has been modified to ensure it meets specific pet insurance-related risks.
- While the organization does not have formal risk appetite statements or risk tolerance limits, a newly defined framework around risk categories has been implemented this year to meet new business needs. Its strategy has limited the amount of risks it is willing to take within the current regulatory and market constraints.
- The management team has been successful in mitigating risks in past years, as demonstrated by limiting exposure to highly regulated and interest rate-sensitive products. Senior executive members of management from Independence Holding Company have moved with IAIC and continue to further develop the current ERM framework.

Rating Lift/Drag

- There is implicit support from the ultimate parent, JAB Holding Company s.a.r.l., which invests in premium consumer brands and industries including the pet business.
- JAB Holding Company s.a.r.l. also has pet hospital operations in the U.S., via National Veterinary Associates, which AM Best believes provides concentric diversification in the pet space.
- AM Best believes the ultimate parent also provides broadened financial flexibility to the insurance operations, and access to additional capital support source - if needed - for potential non-organic expansion opportunities.

Outlook

- The stable outlooks reflect the expectation that IAIC will maintain a balance sheet strength assessment in the very strong range over the intermediate term with adequate operating results contributing to surplus growth needed to support the expansion of the pet business. The outlooks also reflect the strategic role it plays for and implicit support from the ultimate parent, JAB Holding Company s.a.r.l.

Rating Drivers

- A negative rating action could occur if Independence American Insurance Company develops unfavorable trends in premium and earnings.
- A negative rating action could occur if the company experiences a substantial decline in risk-adjusted capitalization.

Credit Analysis

Balance Sheet Strength

Independence American Insurance Company (IAIC) balance sheet strength assessment is assessed as very strong. This is supported by the 2021 Best Capital Adequacy Ratio (BCAR) score of 52.4 at the 99.6% VaR confidence level, assessed as strongest. Growing capital trends driven by positive operating results. Invested assets have been highly liquid and allocated primarily to cash and short-term investments and fixed income securities.

Capitalization

Capital and surplus remains solid and has grown through 2022. Absolute capital has shown a long-term growth trend supported by consistent operating earnings, which prior to 2021 included supplemental health product; however currently pet business is the only product. Pet insurance carries a lower level of risk when compared to supplemental health, which is expected to increase the level of risk adjusted capitalization over the long term. However, JAB Holdings acquired a large block of pet insurance from Crum & Foster Insurance, a transaction valued at \$1.4 billion, which closed on October 31, 2022. Absolute capital and surplus is expected to increase through the end of the year, with the acquisition not having an impact on capital for the year. The new premium from the acquisition will be integrated into IAIC over the next two years at which point risk adjusted capitalization might be pressured. However, JAB Holdings is expected to provide the appropriate level of financial support to ensure that the strongest level of BCAR is maintained over the long term.

Asset Liability Management - Investments

IAIC maintains a favorable level of liquidity due to the majority of its holdings in publicly-traded fixed income securities, in addition to cash and short-term investments. Its liquidity position has remained strong with liquidity measures above 200%. The ultimate parent, JAB Holding, provides additional financial flexibility if it were to need support. Following the acquisition of Crum & Foster pet business, invested assets are expected to increase, however IAIC has transitioned investment management to Goldman Sachs in mid-2022, which will be tasked with aligning the portfolio following IAIC's conservative investment guidelines, which include exposure to only investment grade fixed maturities with a small holding in cash and cash equivalents.

Reserve Adequacy

IAIC's products held a portion of supplemental health products which remained through the end of 2021. However, this was completely ceded to Madison National Life effective year-end 2021. Through the first half of 2022 reserves reflect pet risk only which are short-tailed. IAIC has a robust reserving approach through which reserves are established using the data collected from the business and supported by historical experience. Data is segmented into appropriate groupings for increased accuracy of analysis to assist in the early detection of trends within products and/or geographies.

Operating Performance

IAIC's operating performance is adequate. Since launching pet business back in early 2000s, pet premium has experienced significant growth as the company gained market share breaking the \$100 million mark through 2021. With the recent acquisition of Crum & Foster's pet business, premiums are expected to grow through the end of year, and double digit growth is projected to continue over the next few years. The acquisition is expected to also positively impact bottom line and be accretive to earnings. Historically, some of the premium volatility observed in the data table, is related to legacy products such as short-term medical loss, hospital indemnity and occupational accident which are no longer part of the results through 2022.

Net premium growth over the last year with pet premium reaching almost \$200 million by year-end. Through the first six months of 2022, AM Best notes that premium decreased as the health portion of premium about \$60 million was no longer included in the premium revenue numbers. However, It is expected that premiums will significantly increase following the acquisition of Crum and Foster new business. IAIC is projecting continued and rapid growth, which is expected to reach double-digit growth through 2023 and 2024.

Investment income has steadily declined in recent years, primarily from a decreasing invested asset base, due to the transfer of reserves from exiting other lines of business. Following the acquisition of Crum & Foster, investment income is expected to increase when compared to the prior year. However, IAIC does not rely on investment income to support its earnings.

IAIC has reported generally positive, albeit fluctuating, net income over the last five years, continuing into late 2022, as significant changes to its product portfolio improved its loss ratio, but grew its expense ratio as it started several new lines of business and operating initiatives. Through the first part of 2022, IAIC reported \$3 million net income compared to \$7 million for the same quarter,

Operating Performance (Continued...)

prior year, driven by the absence of the health premium. However, net income is expected to significantly increase following the acquisition.

Business Profile

IAIC's business profile is considered limited, and the profile has changed significantly in recent years due to the development of new products such as specialty health, group employee benefits lines of business and pet insurance. Under its new strategy and ownership, the company is now building its competitive advantage and market positions in the pet business, as prior years had been focused on building expertise around its former specialty products business. Following the acquisition of Crum & Foster, IAIC will be gaining additional market share, with the expectation of increasing its position to be one of the largest pet insurance companies in the US.

IAIC was part of Independence Holding Company's group until it was acquired December 20, 2021 by JAB Holding, its new ultimate parent. JAB Holding is a global consumer company and divides its business into five segments: JAB Coffee & Beverages, Pret Panera, JAB Indulgence, Cottage Holdco, Petcare, and Other. JAB Indulgence group is invested in Krispy Kreme Group. The direct investment in KK GP was transferred to the newly established intermediate holding company JAB Indulgence, Pret Panera includes three Pre Panera holding investments; JAB Coffee & Beverages is invested in Keurig Dr Pepper Group, JDE Peet's coffee through JAB Coffee & Beverages BV; and Other is where the PetCare GP business sits, which makes up the majority of Other segment. Following this transaction JAB Holdings created a new structure with two intermediate companies, Independence Pet Holdings, Inc whose direct subsidiary is Independence American Holdings Corp. who in turn will have Independence American Insurance as its direct subsidiary.

Occupational accident, accidental death and dismemberment, critical illness, group health modified indemnity, and expat medical/LTD products made up approximately 50% of the premium as of September 30, 2021. Upon closing of the transaction IAIC will be ceding its non-pet business risk to MNL, also a former subsidiary of IHC. Prospectively the risk profile of IAIC will be relatively lower, as the pet business does not carry the same risk as the STM and other health products did. The business remains generally geographically diversified throughout the US, with some concentration in a few states. Market penetration in the pet business remains low across the industry, providing IAIC with growth opportunities. The company has implemented several business initiatives in an effort to expand its reach to consumers, which is reflected in the increasing market share over the last couple of years of the pet business with the relationship with the American Kennel Club which provides a pipeline to IAIC for premium growth.

IAIC maintains a multi-channel distribution network including general agents, direct brokers, call centers, career agencies, and MGAs with long-standing relationships. In recent years, the group has selectively re-deployed excess capital to grow owned distribution with new distribution partners. IHC Group benefits from several high profile distribution/marketing relationships as a primary product supplier for prominent medical carriers as well as other retail channels.

IAIC, founded in 1973 and domiciled in Delaware, is licensed to sell insurance products in all 50 states and the District of Columbia. The company has marketed various ancillary medical products, pet insurance, and non-subscriber occupational accident insurance. Historically, IAIC generated the majority of its premium as a reinsurer (over 20%) of employer medical stop-loss business produced by Standard Security Life (SSL) a former affiliated entity, in addition to directly writing this business. Thus, the company's net premium decreased by approximately 40% from the sale of the stop-loss segment, but has since rebounded through other product offerings. With this latest transition to pet insurance only, the company projects similar trends to its last product divestiture.

Enterprise Risk Management

IAIC currently has an appropriate Enterprise Risk Management (ERM) program, which has been in place for several years under the prior ownership. Under the new organization, IAIC will continue on the basis of the plan built before, which encouraged a strong risk culture and governance, ongoing discipline and risk identification, and regular reporting of risk to executive leadership team. It is important to note that several members of the former management team involved in creating the ERM structure and processes are moving over as part of the new structure.

Senior management created an ERM Committee comprised of executives with relevant business expertise which will be key in ensuring the evaluation and identification of risk continues. The ERM Committee will report to the Board of Directors of IAIC and JAB Holdings. Senior management for each business unit is involved in ERM as they are held responsible for their own risks and monitored by the IAIC CEO who also heads the Strategic Planning Group. The Chairman of the ERM Committee claims that detailed risks and mitigating factors are documented at the subsidiary level within individual departments; he further claimed that risks have been identified, probability factors assigned and quantified regarding severity. Quarterly reporting to the Board of Directors.

Risks identified and reported were: Market, IT, Product, Strategic, People, Legal/compliance, Operations, and Financial risks.

Over the last several years, the company has demonstrated risk awareness, as the management strategically selected the products and markets for growth based on the amount of risk the company is willing to take. Competent management team with average tenure of

Enterprise Risk Management (Continued...)

25+ years in insurance joining with JAB 40+ years will allow for product innovation and speed to market and will evaluate relevant risks associated with same. As the ERM framework continues to evolve AM Best will continue to monitor the evolution and growth of the risk management capabilities used to monitor the process within the organization.

Reinsurance Summary

IAIC has non-pet reinsurance, which will be ceded 100% to MNL, which is under agreement to be sold to Horace Mann. MNL is an authorized reinsurer in DE. The non-pet business includes a smaller block of occupational accident coverage through unaffiliated entities. It includes other ancillary benefits such as STM, dental, vision and supplemental products (includes fixed indemnity limited benefit, critical illness, and hospital indemnity). In addition, IAIC cedes their run-off medical stop loss business to Westport Insurance Corporation (Westport, CT), a subsidiary of Swiss Re. Also, IAIC also assumes 20% of SSL's short-term statutory disability benefit product ("DBL") business; SSL is also under contract to be sold and it anticipated that this relationship will be terminated.

Environmental, Social & Governance

While the rating is not impacted by ESG factors, IAIC has conducted an internal survey to assess its ESG impact and shared with AM Best. The findings show that the Societal and Governance factors have shown to have an impact on the company's ongoing success. From a governance perspective, the company abides by its Code of Conduct, which reviews annually, and makes changes as needed, and approved by the parent company's board of directors. The Code of conduct is distributed to its employees for acknowledgment. Furthermore, the company's Corporate Governance Plan, the board of directors crated an ERM charter with management committee designed for ERM that meets quarterly to address legal and regulatory environment. From a Societal standpoint, IAIC is in the process of formalizing policies around customer welfare, employee health and safety as well as diversity, equity and inclusion.

Rating Lift/Drag

IAIC receives lift as the company remains critical to its ultimate parent's strategy in further diversified by growing the pet business outside of Europe. In addition, the ultimate parent would provide capital to support IAIC's growth. JAB Holding has grown its presence in the pet space by acquiring National Veterinary Association (NVA) the largest pet hospital in the USA, a couple of years ago. JAB Holding has further solidified its presence in the pet industry with the acquisition of Crum & Foster pet insurance valued at \$1.4 billion. The business will be transitioned onto IAIC paper, and JAB Holding will continue to support IAIC's capital as needed, as the new business becomes integrated.

Financial Statements

	6-Months		Year End - December 31			
	2022		2021		2020	
Balance Sheet	USD (000)	%	USD (000)	%	USD (000)	%
Cash and Short Term Investments	64,674	45.9	44,380	32.4	32,176	21.5
Bonds	62,437	44.3	75,197	54.9	103,454	69.3
Preferred and Common Stock	827	0.6	859	0.6	880	0.6
Other Invested Assets	115	0.1	342	0.2	781	0.5
Total Cash and Invested Assets	128,053	90.9	120,779	88.1	137,291	91.9
Premium Balances	8,403	6.0	10,211	7.4	5,943	4.0
Net Deferred Tax Asset	710	0.5	331	0.2	1,156	0.8
Other Assets	3,752	2.7	5,767	4.2	4,980	3.3
Total Assets	140,918	100.0	137,087	100.0	149,369	100.0
Loss and Loss Adjustment Expense Reserves:						
Net IBNR Loss Reserves*	14,896	10.6	13,933	10.2	35,314	23.6
Net LAE Reserves	988	0.7	5,496	3.7
Total Net Loss and LAE Reserves	14,896	10.6	14,921	10.9	40,809	27.3
Net Unearned Premiums	7,312	5.2	6,942	5.1	6,219	4.2
Other Liabilities	11,592	8.2	11,408	8.3	14,137	9.5
Total Liabilities	33,800	24.0	33,271	24.3	61,165	40.9
Capital Stock	3,000	2.1	3,000	2.2	3,000	2.0
Paid-In and Contributed Surplus	100,570	71.4	100,570	73.4	26,902	18.0
Unassigned Surplus	3,548	2.5	247	0.2	58,302	39.0
Total Policyholders' Surplus	107,118	76.0	103,817	75.7	88,204	59.1
Total Liabilities and Surplus	140,918	100.0	137,087	100.0	149,369	100.0

Source: BestLink® - Best's Financial Suite

Independence American Insurance Company

Operations

Date Incorporated: February 26, 1973 | **Date Commenced:** March 15, 1973

Domiciled: Delaware, United States

Licensed: (Current since 03/21/2014). The company is licensed in the District of Columbia and all states.

Business Type: Property/Casualty
Organization Type: Stock
Marketing Type: MGA
Financial Size: VIII (\$100 Million to \$250 Million)

Last Update

November 17, 2022

Identifiers

AMB #: 003552
NAIC #: 26581
FEIN #: 74-1746542

Contact Information

Administrative Office:
 485 Madison Avenue, 14th Floor,
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Financial Data Presented

The financial data in this report reflects the most current data available at the time the report was printed.

Best's Credit Ratings

Rating Relationship

AM Best Rating Unit: 003552 - Independence American Insurance Company

Refer to the [Best's Credit Report for AMB# 003552 - Independence American Insurance Company](#) for details regarding the rating rationale, credit analysis, and financial exhibits available at the time the credit analysis was performed.

Best's Credit Rating History

AM Best has assigned ratings on this company since 2001. In our opinion, the company has an Excellent ability to meet their ongoing insurance obligations and an Excellent ability to meet their ongoing senior financial obligations.

The following are the most recent rating events, for longer history refer to [Rating History](#) in BestLink:

Effective Date	Best's Financial Strength Ratings				Best's Long-Term Issuer Credit Ratings		
	Rating	Affiliation	Outlook	Action	Rating	Outlook	Action
Current -							
Nov 3, 2022	A-		Stable	Affirmed	a-	Stable	Affirmed
Dec 22, 2021	A-		Stable	Affirmed	a-	Stable	Affirmed
May 19, 2021	A- u	g (Group Rating)	Developing	Under Review	a- u	Developing	Under Review
Dec 16, 2020	A-	g (Group Rating)	Stable	Affirmed	a-	Stable	Affirmed
Dec 17, 2019	A-	g (Group Rating)	Stable	Affirmed	a-	Stable	Affirmed

Management

Officers

CEO: David T. Kettig
President: Jon A. Dubauskas
CFO: Keith Graham
Chief Information Officer: Brad Bielawski (Security)
EVP: Daryl Zee (Product Development & Account Management)
Vice President and Controller: Adam N. Guarino
Vice President: Julie Cooper (Actuarial Service)
Secretary and General Counsel: Sammi-Jo Nevin
Chief Officer: Lee A. Karr (People)

Directors

Jon A. Dubauskas
Keith Graham
Lane Kent
David T. Kettig
Sammi-Jo Nevin
David Strauss

History

The company was incorporated on February 26, 1973 under the laws of Delaware as Pinnacle Insurance Company. The company's name was subsequently changed to Chaparral Insurance Company on November 17, 1975; Greenwich Insurance Company on November 20, 1981; First International Reinsurance Company on October 15, 1982; GHI Reinsurance Company on January 16, 1992; Cove Reinsurance Company on May 26, 1992 and First Standard Security Insurance Company on December 15, 1993. The present title was adopted on November 14, 2002. On May 12, 1993, Independence Holding Company purchased all of the stock of the Company from Geneve Holdings, Inc. On June 30, 1993, all of the stock was contributed to SSH Corp. Prior to November 2002, the company was a wholly-owned subsidiary of Standard Security Life Insurance Company of New York, which is part of Independence Holding Company and whose ultimate control rests with Geneve Holdings, Inc. On November 14, 2002, the company was sold to American Independence Corp. (AMIC) which is an affiliate of Standard Security. In August, 2016, AMIC merged into AMIC Holdings, Inc. The company's name was also changed from First Standard Security Insurance Company to Independence American Insurance Company, the present title.

A Best's Financial Strength Rating opinion addresses the relative ability of an insurer to meet its ongoing insurance obligations. The ratings are not assigned to specific insurance policies or contracts and do 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. A Financial Strength Rating 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.

A Best's Issue/Issuer Credit Rating is an opinion regarding the relative future credit risk of an entity, a credit commitment or a debt or debt-like security.

Credit risk is the risk that an entity may not meet its contractual, financial obligations as they come due. These credit ratings do not address any other risk, including but not limited to liquidity risk, market value risk or price volatility of rated securities. The rating is not a recommendation to buy, sell or hold any securities, insurance policies, contracts or any other financial obligations, nor does it address the suitability of any particular financial obligation for a specific purpose or purchaser.

In arriving at a rating decision, AM Best relies on third-party audited financial data and/or other information provided to it. While this information is believed to be reliable, AM Best does not independently verify the accuracy or reliability of the information. Any and all ratings, opinions and information contained herein are provided "as is," without any express or implied warranty.

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