



BEST'S COMPANY REPORT



Independence American Insurance Company

INDEPENDENCE AMERICAN INSURANCE COMPANY

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NAIC #: 26581
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FEIN #: 74-1746542
Website: www.independenceamerican.com



Best's Credit Rating Effective Date

November 02, 2023

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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)

<p>A-</p> <p>Excellent</p>
<p>Outlook: Stable</p> <p>Action: Affirmed</p>

Issuer Credit Rating (ICR)

<p>a-</p> <p>Excellent</p>
<p>Outlook: Stable</p> <p>Action: Affirmed</p>

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 Best's Capital Adequacy Ratio (BCAR).
- Capital has grown in each of the past five years driven by strong operating gains and consistent net income. Capital is further enhanced by capital contributions from the parent to support growth attributed to the Crum & Forster acquisition.
- IAIC maintains a fairly conservative investment portfolio, with the majority of invested assets composed of investment-grade fixed-income securities and cash and short-term investments.
- The company has maintained strong liquidity ratios over the past five years, and is enhanced by implicit support from JAB Holding Company Sàrl.

Operating Performance: Adequate

- IAIC has grown premiums in each of the past five years, with increased growth during 2022 driven by the acquisition of Crum & Forster's pet business. The increase in assumed pet health premiums was partially offset by a 100% cession of human health lines.
- IAIC reported its first underwriting loss in the past five years due to increased expenses attributable to prepaid commissions and administration of unearned premium reserves acquired from new business. The company has reported an underwriting gain through the first half of 2023 and expects to be profitable for the foreseeable future.
- 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.
- The company maintains a multi-brand omni-channel strategy, with underwriting capacity that supports brands of third-party and owned MGAs, white-label distributors, co-branding partnerships and employee benefits. The omni-distribution approach provides IAIC strong diversity of distribution.
- IAIC is well positioned to grow its pet business given its current distribution platform as well as its MGAs' relationships. The company's market presence will continue to expand due to the acquisition of the Crum & Forster's pet business and the development of its unique group pet policy.

Enterprise Risk Management: Appropriate

- The organization has a formal enterprise risk management program that has been refined to build up risk tolerance and improve the overall framework within IAIC to formally measure and monitor pet risk. IAIC continues to make enhancements to the ERM program as it gains from further expertise in risk management from its ultimate parent, JAB Holding Company s.a.r.l.
- IAIC's ERM framework includes defining a risk universe, a risk matrix, and a risk register that lists each identified risk with relative scoring that is reviewed several times throughout the year.
- The company has adopted a three lines of defense model, which involves assigning risks to specific owners, an enterprise-wide risk assessment and internal controls/processes combined with oversight from the Board Audit Committee.

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. 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 enhances financial flexibility to the insurance operations and offers access to additional capital support as a potential source for non-organic expansion opportunities, if needed.

Outlook

- The stable outlooks reflect IAIC's ability to maintain very strong balance sheet strength over the intermediate term, with adequate operating performance contributing to surplus growth needed to support the expansion of the 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 an unfavorable trend in operating performance metrics.
- A negative rating action could occur if the company experiences a substantial decline in risk-adjusted capitalization.
- While unlikely, positive rating movement could occur if the company sustains the strongest level of risk-adjusted capitalization, as measured by Best's Capital Adequacy Ratio (BCAR).

Credit Analysis

Balance Sheet Strength

Independence American Insurance Company (IAIC) balance sheet strength assessment is assessed as very strong. This is supported by the 2022 Best Capital Adequacy Ratio (BCAR) score of 31.3 at the 99.6% VaR confidence level, which is assessed as strongest. Pressuring the BCAR is the higher level of premium expected to come through after the Crum & Forster (CF) acquisition. The pressure is partially offset by the growth of capital through year-end 2022. The investment portfolio is almost entirely investment grade and is split between bonds and cash and short-term investments. The portfolio is considered fairly conservative.

Capitalization

Capital and surplus remains solid and has grown through the first half of 2023. Absolute capital has shown a long-term growth trend supported by consistent operating earnings, which prior to 2021 included supplemental health products. However, JAB Holding Company Sàrl acquired a large block of pet insurance from CF which closed on October 31, 2022. The acquisition more than tripled the quarterly net premium written. JAB Holding Company Sàrl has provided capital contributions in 2022 and 2023 to support the growth. As IAIC continues to grow, JAB Holding Company Sàrl is expected to provide the appropriate level of financial support to ensure that IAIC maintains its level of risk-adjusted capitalization.

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 Company Sàrl, has additional financial flexibility if it was needed. Following the acquisition of the CF pet business, invested assets have increased, 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. Invested assets are expected to increase each year as IAIC's premiums grow.

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 2023 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. IAIC has grown premiums in each of the past five years, with increased growth during 2022 driven by the acquisition of Crum & Forster's (CF) pet business. The increased growth in net premiums over the past five years has led to a five-year compound annual growth rate of 16.8%. As of year-end 2022, net premiums grew to \$240.9 million as the CF business was included in the fourth quarter. Premium growth is expected to be driven by its owned brands ASPCA, Figo pet insurance (including sales through Costco), Pets Plus Us in Canada, AKC pet insurance (administered by Pet Partners), and the 24 Pet Watch brands in the US and Canada.

The company reported its first underwriting loss in the past five years during 2022 driven by increased expenses attributable to prepaid commissions and administration on unearned premium reserves from acquired business. Through the first half of 2023 the company reported an underwriting gain and expects to be profitable for the foreseeable future. IAIC predicts stable loss ratios over the next few years as they rely on their market knowledge and pricing discipline for competitive advantages. Investment income had declined in recent years due to decreasing invested asset base due to the transfer of reserves from exiting other lines of business. However,

Operating Performance (Continued...)

following the acquisition of the CF pet business, invested assets and investment income increased when compared to the prior year. Investment income has been positive in each of the past five years, 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. However, overall profitability declined during 2022 as expected driven by the removal of human health lines and an increase in prepaid/LAE reserves. Through the first half of 2023, IAIC reported \$8.2 million net income compared to \$7 million for the same quarter, prior year. Net income is expected to significantly increase over year-end 2022 with a full year of the CF pet business.

Business Profile

IAIC's business profile is considered limited, and the profile has changed significantly in recent years. Under its new strategy and ownership, the company is now building its competitive advantage in the pet business, as prior years had been focused on building expertise around its former specialty products business. Through the acquisition of Crum & Forster (CF) pet business, IAIC will be gaining additional market share. The company's retained non-pet reinsurance was 100% ceded to Madison National Life Insurance Company and all of the non-pet business came off IAIC's balance sheet starting in 2022.

IAIC was part of Independence Holding Company's group until it was acquired December 20, 2021 by JAB Holding Company Sàrl, its new ultimate parent. JAB Holding Company Sàrl is a global consumer company and divides its business into six segments: pet insurance, petcare, coffee & beverage, fast casual restaurants, indulgence and beauty & luxury. Following this transaction JAB Holding Company Sàrl 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.

Pet business represented all premiums as of year-end 2022. The risk profile of IAIC is now relatively lower, as the pet business does not carry the same risk as the short-term medical and other health products did. The pet business has high frequency low severity type of experience and are less capital intensive than human health products. 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 scale over the last couple of years and growth will be enhanced by the acquisition of CF pet business.

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.

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 previously marketed various ancillary medical products, pet insurance, and non-subscriber occupational accident insurance. Since the acquisition by JAB Holding Company Sàrl, IAIC's focus is on pet insurance only.

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, but that has been modified to ensure it meets its expanding pet insurance related risks. Under the new organization, IAIC has continued 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 moved over as part of the new structure.

Senior management established 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 reports to the Board of Directors of IAIC and JAB Holding Company Sàrl. Senior management for each business unit is involved in ERM as they are held responsible for their own risks and monitored by the IAIC President who also heads the Risk and Actuarial Group. Detailed risks and mitigating factors are documented at the subsidiary level within individual departments; once risks have been identified, probability factors are assigned and quantified regarding severity. Quarterly reporting to the Board of Directors.

Core risks identified and reported were: Strategic, IT Risk, Product, Market, People, Legal/Compliance, Operations, and Financial.

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. A competent management team with average tenure of 25+ years in insurance joining with JAB 40+ years will allow for product innovation and speed to market and will evaluate relevant

Enterprise Risk Management (Continued...)

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 is ceded 100% to Madison National Life, which was recently sold to Horace Mann. Madison National Life 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 short-term medical, dental, vision and supplemental products (includes fixed indemnity limited benefit, critical illness, and hospital indemnity).

Environmental, Social & Governance

AM Best considers IAIC's exposure to material environmental, social and corporate governance (ESG) risks to be low. IAIC has conducted an internal survey to assess its ESG impact and shared with AM Best. The company operates in an environment where its underwriting activities have low or no exposure to climate risk, and its profile on underwriting and investments are not exposed to so-called toxic assets and industries. 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. Furthermore, the company's Corporate Governance Plan, the board of directors created an ERM charter with a management committee that meets monthly to address legal and regulatory environment matters. The company has also added an ESG lead to manage goals around business areas to integrate with their corporate mission, vision and values. The company operates in line with market peers, and at present ESG factors are unlikely to impact the credit quality of the company over the short-term. There are no regulatory requirements relating to ESG, although the company monitors developments to ensure its practices are compliant.

Rating Lift/Drag

IAIC receives lift as the company remains critical to its ultimate parent's strategy to further diversify its growing the pet business outside of Europe. In addition, the ultimate parent has and is expected to provide capital to support IAIC's growth. JAB Holding Company Sàrl has further solidified its presence in the pet industry with the acquisition of Crum & Forster's pet insurance business. As the business is transferred to IAIC paper, the company will continue to explore measures to meet its capital needs including potential support from JAB Holding Company Sàrl, as the premiums for IAIC significantly increase.

Financial Statements

	6-Months		Year End - December 31			
	2023		2022		2021	
Balance Sheet	USD (000)	%	USD (000)	%	USD (000)	%
Cash and Short Term Investments	46,043	16.3	39,385	20.0	44,380	32.4
Bonds	190,121	67.2	117,506	59.7	75,197	54.9
Preferred and Common Stock	...	...	...	...	859	0.6
Other Invested Assets	36	...	17	...	342	0.2
Total Cash and Invested Assets	236,200	83.5	156,908	79.7	120,779	88.1
Premium Balances	38,111	13.5	32,448	16.5	10,211	7.4
Net Deferred Tax Asset	2,118	0.7	2,118	1.1	331	0.2
Other Assets	6,416	2.3	5,322	2.7	5,767	4.2
Total Assets	282,845	100.0	196,796	100.0	137,087	100.0
Loss and Loss Adjustment Expense Reserves:						
Net IBNR Loss Reserves*	78,927	27.9	51,362	26.1	13,933	10.2
Net LAE Reserves	...	...	3,642	1.9	988	0.7
Total Net Loss and LAE Reserves	78,927	27.9	55,004	27.9	14,921	10.9
Net Unearned Premiums	21,119	7.5	19,179	9.7	6,942	5.1
Other Liabilities	14,485	5.1	17,439	8.9	11,408	8.3
Total Liabilities	114,531	40.5	91,621	46.6	33,271	24.3
Capital Stock	3,000	1.1	3,000	1.5	3,000	2.2
Paid-In and Contributed Surplus	154,570	54.6	100,570	51.1	100,570	73.4
Unassigned Surplus	10,744	3.8	1,604	0.8	247	0.2
Total Policyholders' Surplus	168,314	59.5	105,175	53.4	103,817	75.7
Total Liabilities and Surplus	282,845	100.0	196,796	100.0	137,087	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
Best's Financial Size Category: VIII (USD 100 Million to Less than 250 Million)

Last Update

November 28, 2023

Identifiers

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

Contact Information

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Phone: +1-877-559-7919

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 2, 2023	A-		Stable	Affirmed	a-	Stable	Affirmed
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

Management

Officers

President: Jon A. Dubauskas

Treasurer and CFO: Keith Graham

Chief Information Officer: Brad Bielawski (Security)

EVP: Daryl Zee (Product Development & Account Management)

Vice President and Controller: Adam N. Guarino

Secretary and General Counsel: Sammi-Jo Nevin

Chief Officer: Lee A. Karr (People)

Directors

Jon A. Dubauskas

Teresa Herbert

Lane Kent

David T. Kettig

Sammi-Jo Nevin

Dennis Rushovich

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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