

BEST'S RATING REPORT



Independence American
Insurance Company

INDEPENDENCE AMERICAN INSURANCE COMPANY

Domiciliary Address: 1209 Orange Street, Wilmington, Delaware 19801 United States
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AMB #: 003552

NAIC #: 26581

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Best's Credit Rating Effective Date

December 22, 2021

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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.
- The group's investment portfolio is fairly conservative, with the majority of invested assets composed of investment-grade fixed-income securities.

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 2020 driven by less capital-intensive products contributed to favorable operating results. For the first six months of 2021, both underwriting and earnings are trending higher than the prior year supported by premium development, reflecting growth in the pet business.
- Net investment income, while it declined from the prior year, continued to steadily contribute to the total.

Business Profile: **Limited**

- IAIC's business profile is limited driven by the concentration in the pet business prospectively.
- The company previously had an ancillary and supplemental health products offering, which will be ceded to Madison National Life Insurance Company, leaving IAIC with only pet insurance.
- 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. Growth in the business could emerge from opportunistic acquisitions providing growth potential.

Enterprise Risk Management: **Appropriate**

- The group has a formal enterprise risk management program, which has been in place since 2009 in prior ownership, but that has been modified to ensure it meets specific pet insurance-related risks.
- While the group 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. The group's strategy has limited the amount of risks the group 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 continuing to develop further the current ERM framework.

Rating Lift/Drag

- 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 one of the largest pet hospital operations in the U.S., National Veterinary Associates, providing IAIC with synergies and growth potential.
- The ultimate parent provides implicit financial flexibility and capital support 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 new ultimate parent, JAB Holding Company.

Rating Drivers

- A negative rating action could occur if Independence American Insurance Company develops unfavorable trends in premium and/or 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 2020 Best Capital Adequacy Ratio (BCAR) score of 43.7 at the 99.6% VaR confidence level, with its BCAR assessed as strongest. Growing capital trends over the past five years 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 has shown a long-term growth trend supported by consistent operating earnings within its previously written supplemental health, and current core pet business. This was offset historically by annual dividends paid to its parent, during prior ownership. Capital is managed appropriately to match the products it offers which are primarily short-tailed. The total Capital CAGR was 6.8% through 2020 reflecting solid consistent growth. Going into 2021, capital and surplus continued to be solid with IAIC reporting approximately \$103 million, increasing approximately \$25 million from \$88 million reported at 2020 year-end.

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%. With the new ultimate parent, JAB Holding, IAIC will gain additional financial flexibility if it were to need support.

Reserve Adequacy

IAIC's products currently has a portion of supplemental health products, however upon the transaction close and related reinsurance transactions, the pet business is all that remains. With this new focus there will also be limited immediate dependence on reinsurance, as IAIC will cede the non-pet business to Madison National Life Insurance Company (MNL) and will no longer assume any other specialty business risk.

Operating Performance

IAIC's operating performance is adequate. The company has experienced top line growth driven by its pet business, but also some volatility from some relatively new to market products such as short-term medical loss, hospital indemnity and occupational accident. It important to note these supplemental health businesses are being reinsured out as part of the recent acquisition. While the composition of revenue has shifted, positive net operating gains derived from diverse revenue sources were reported over the five years and through 2020, and into 2021. Underwriting income has been favorable during this time, and further improving in 2021 reflecting improvements in loss and combined ratios.

Net premium has grown through the first nine months of 2021 compared with the same period in the prior year primarily driven by incremental new sales of short-term medical, hospital indemnity, its hybrid "Fusion" product, and Pet insurance. IAIC's premium significantly decreased in 2016, when the group exited the medical stop-loss segment, via a sale of this block of business. This decline has been partially offset by premium growth in multiple specialty health, ancillary medical products and pet insurance starting in 2018, and continuing into 2019 and part of 2020. It is expected that premiums will decline significantly, as the supplemental business is reinsured. However, IAIC is projecting continued and rapid growth of its new core pet insurance business, which is estimated to return premium levels to pre-transaction levels of approximately \$190 million, within several years.

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. 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 2021, 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 nine months of 2021, IAIC reported \$13.1 million compared to \$8.4 million for the same quarter, prior year. The majority of the growth is reflecting continued top line growth from the pet business. AM Best will continue to monitor the new run rate of earnings as the company adjusts to its new business model.

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.

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 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.

Enterprise Risk Management (Continued...)**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.

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. With the potential synergies with working with the veterinarians in referring IAIC pet insurance, the network provided by NVA provides a significant potential growth. In addition, the ultimate parent would provide capital to support IAIC's growth.

Financial Statements

	9-Months		Year End - December 31			
	2021		2020		2019	
Balance Sheet	USD (000)	%	USD (000)	%	USD (000)	%
Cash and Short Term Investments	49,900	32.6	32,176	21.5	18,363	13.5
Bonds	90,814	59.3	103,454	69.3	101,675	74.8
Preferred and Common Stock	859	0.6	880	0.6	883	0.6
Other Invested Assets	47	...	781	0.5	2,197	1.6
Total Cash and Invested Assets	141,620	92.5	137,291	91.9	123,119	90.5
Premium Balances	6,335	4.1	5,943	4.0	6,577	4.8
Net Deferred Tax Asset	734	0.5	1,156	0.8	977	0.7
Other Assets	4,398	2.9	4,980	3.3	5,316	3.9
Total General Account Assets	153,087	100.0	149,369	100.0	135,989	100.0
Total Assets	153,087	100.0	149,369	100.0	135,989	100.0
Net Accident & Health Reserves	39,949	26.1	47,028	31.5	41,044	30.2
Other Liabilities	9,968	6.5	14,137	9.5	10,412	7.7
Total General Account Liabilities	49,917	32.6	61,165	40.9	51,456	37.8
Total Liabilities	49,917	32.6	61,165	40.9	51,456	37.8
Capital Stock	3,000	2.0	3,000	2.0	3,000	2.2
Paid-In and Contributed Surplus	26,902	17.6	26,902	18.0	26,902	19.8
Unassigned Surplus	73,268	47.9	58,302	39.0	54,631	40.2
Total Capital and Surplus	103,170	67.4	88,204	59.1	84,533	62.2
Total Liabilities, Capital and Surplus	153,087	100.0	149,369	100.0	135,989	100.0

Source: BestLink® - Best's Financial Suite

Last Update

December 22, 2021

Identifiers

AMB #: 003552

NAIC #: 26581

FEIN #: 74-1746542

Contact Information

Administrative Office:

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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.

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:

Health - Vision Non-HMO

Organization Type:

Stock

Marketing Type:

MGA

Financial Size:

IX (\$250 Million to \$500 Million)

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:

Best's Financial Strength Ratings					Best's Long-Term Issuer Credit Ratings		
Effective Date	Rating	Affiliation	Outlook	Action	Rating	Outlook	Action
Current -							
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
Dec 19, 2018	A-	g (Group Rating)	Stable	Affirmed	a-	Stable	Affirmed

Management

Officers

Vice Chairperson and Vice President: Rachel Lipari

President: David T. Kettig

Chief Information Officer: Brad Bielawski (Security)

SVP and CFO: Gary J. Balzofiore

SVP and Chief Actuary: Jon A. Dubauskas

SVP, General Counsel and Chief Compliance Officer: Marla J. Di Resta

SVP: Lane Kent (Senior Markets & Pet Division)

SVP: Loan T. Nisser

SVP: Daryl Zee (Specialty Products)

Vice President and Controller: Adam N. Guarino

Secretary: Mary E. Morandini

Directors

Gary J. Balzofiore

Larry R. Graber

Teresa A. Herbert

David T. Kettig

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.

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