

August 4, 2025*

Rated Captives and Alternative Risk Entities Continue to Emerge and Excel

The underwriting performance of captives deteriorated but still continues to outpace commercial casualty peers

Principal Takeaways

- The hard market that commenced around 2018 has spurred a continuous wave of captive formations that have developed into solid, permanent risk management tools for owners and members.
- Captives are both a natural extension of corporate enterprise risk management and a strategic foil to rapidly rising commercial market insurance costs.
- Captives and alternative risk transfer entities afford owners the ability to take on risks they know better than anyone else, which translates into better consistent underwriting results (albeit modest volatility from low-frequency, high-severity lines); efficient claims management; and, ultimately, significant savings on traditional commercial market insurance spend.
- The inherent benefits of these arrangements breed success, as the underwriting performance of the AM Best-rated captive composite continues to outperform commercial casualty peers.
- From the end of 2019 through 2024, AM Best-rated captives preserved an estimated \$6.6 billion—\$4.6 billion in surplus growth and \$2.0 billion in dividends—cost savings that would have otherwise gone to the commercial market.
- Regulators are incrementally updating their captive statutes to compete with other jurisdictions for the economic benefits the insurance segment can bring to their respective state economies.

Single-parent and group captives have continued to prove their value to their owners and members as efficient enterprise risk management (ERM) tools, especially in hard markets, the most recent of which began around 2018. They often emanate from the parent's treasury department as they look at ways to save money and improve cash flow in their endeavor to secure much-needed insurance protection. At the same time, safety, loss control, and risk management also play a role, and, at the end of the day, many businesses are seeing the value in avoiding market cyclicity and occasional unforeseen availability or capacity concerns by adopting a captive insurance program that's designed specifically for them and their risks. So far, captive formations remain a viable alternative to the commercial market and have grown to record numbers both here in the US and abroad.

However, the urgency and pace of captive and cell formations has slowed as the hard market has gradually abated in certain lines of business, such as in directors and officers (D&O) and cyber. After a few years of large increases, the traditional property market and some casualty lines, such as commercial auto liability, are still requiring higher rates, albeit lower increases. Nonetheless, these are cases where captives can demonstrate their value by covering some, or all, of a line where pricing seems askew relative to a corporation's own loss experience in a line or prohibitively expensive for the risks with unseasoned modeling.

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Cell captives on captive manager platforms have become quite prolific for small- to medium-sized enterprises (SMEs) needing customizable coverage on a smaller scale than the traditional market may provide efficiently. Specific cases where certain risks may be quite meaningful to a business owner but somewhat remote can draw opportunities for self-insuring these types of risks in cells. Examples include key-man risk, loss of a major customer or loss of a critical employee, or lower-level business interruption (BI). So long as these are structured and managed as legitimate risk transfer vehicles, they have largely survived US Internal Revenue Service scrutiny.

Group captives continue to screen and add new members who are inclined to diversify their loss experience among a group of like-minded business owners with a similar goal of loss prevention and mitigation, quality and consistent underwriting, and effective claims management. This happens often when some would like to share their general liability or umbrella-type coverages. In addition to smoother results through diversification, they are often able to obtain better coverage at a better price as part of a critical mass approaching reinsurers as well. Incentives for retention, such as policyholder dividends from shared profitability, improve their experience.

AM Best has observed this in the US in the form of risk retention groups (RRGs), where member insureds align interests within a certain industry to educate policyholders for loss prevention and mitigation. Currently, it is happening more frequently (in formations) in the commercial auto liability (CAL) line due to the hard market, social inflation, and potential for nuclear verdicts for litigated claims. RRGs also have a continued presence for these reasons in medical professional liability (MPL) as certain MPL companies began to use these RRGs as an expansion vehicle into other states. In higher education, universities align for portions of their overall coverage but may separately form risk purchasing groups for others.

The alternative risk transfer entities described above are named as alternatives to the traditional commercial market. They generate upwards of one-fourth of the premium of the global insurance market.

Owners of these entities are pursuing quality risk management solutions for potential exposures to uncertainties that exist in their respective economic environments or that could arise in their respective businesses. As business owners, they seek the most efficient mitigation tools to protect their financial interests and business reputations.

AM Best's rated universe of captives and alternative risk entities are largely strongly capitalized on a risk-adjusted basis when considering investment, underwriting, and catastrophic risks. Each of these various types described above typically goes through risk management-derived business plans and actuarially reviewed feasibility studies to develop and fine-tune business plans that are subsequently reviewed by insurance regulators for licensing.

AM Best – Alternative Risk Transfer Criteria

AM Best applies the Alternative Risk Transfer (ART) criteria for its analysis when assigning ratings to captives. This criteria procedure provides specialized guidance for nuances and considerations in rating captive entities beyond the broader Best's Credit Rating Methodology, which is applied to traditional insurance and reinsurance companies. A draft of the ART criteria with proposed material revisions was circulated externally in late 2024 for public comment. The most significant changes include a name change to "Rating Captives and Other Alternative Risk Transfer Entities" and establishing a path for assigning Issuer Credit Ratings (ICR) and Financial Strength Ratings (FSR) to individual incorporated cell entities.

Formations – Steady, but Slowing

Amid the ongoing hard insurance market, there continues to be a noticeable increase in the adoption of captive insurance solutions by owners, sponsors, and managers. In 2024, the total number of US domestic captives rose to 3,466 from 3,365 in 2023. **Exhibit 1** lists the most active US domiciles in licensing captive insurers.

These states provide a business-friendly regulatory environment with deep expertise and support for captive insurance operations and are well complemented by a strong network of local service providers. There has been minimal movement among the top 10 in domicile rankings over the past five years.

Exhibit 2 reflects AM Best's rated captive domiciles with concentrations in Vermont and Bermuda, each recognized as a global captive domicile leader. The rated insurers span a wide variety of industries and risk profiles we consider when conducting our analysis; it is essential to consider the specific context of the company being rated.

Business Profile

AM Best rates over 200 companies globally under our Alternative Risk Transfer Criteria. Over half of the ratings are in the US, with about 13% in Bermuda and 9% in the Caribbean. They are comprised of single-parent captives (SPCs), group captives, RRGs, and cell companies, as illustrated in **Exhibit 3**.

Each type has a specific type of function and risk profile in the owner's or sponsor's strategy in developing its business plan. The rationale for forming or expanding captives is a strategic and long-term prospect for businesses, as opposed to purely a reaction to hard markets. For businesses, both large and small, captives are increasingly viewed as essential tools for risk management, resilience, and innovation. Regardless of the coverage or company type being used, captives continue to play a critical role in providing financial benefits and capacity to buyers of commercial insurance and their stakeholders. Over the past few years, captive usage has expanded significantly to new lines that were increasingly expensive for coverage to participate in reinsurance structures, to fill out small pieces of layers, or to take a slice of a tower when justified economically.

Major corporations that establish SPCs typically use these entities to insure risks characterized by low loss frequency but high potential severity, such as property losses and catastrophic (CAT) events. An SPC also provides an opportunity to insure difficult or unique risks too challenging or costly to find

Exhibit 1

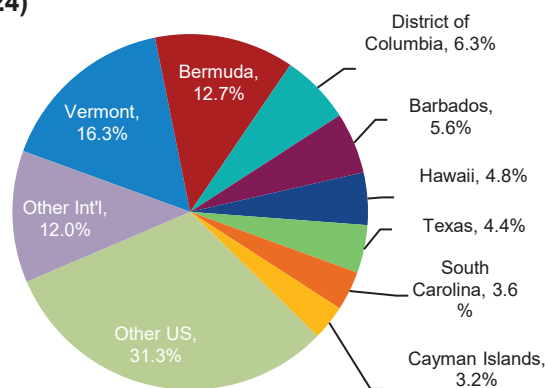
Number of US Captives, 2024

Rank	US Domicile	2024
1	Vermont	683
2	Utah	462
3	North Carolina	293
4	Delaware	285
5	Hawaii	272
6	South Carolina	231
7	Arizona	201
8	Tennessee	175
9	Wash DC	132
10	Montana	93
11	Nevada	92
	Other States	547
	Total	3,466

Source: Insurance Information Institute

Exhibit 2

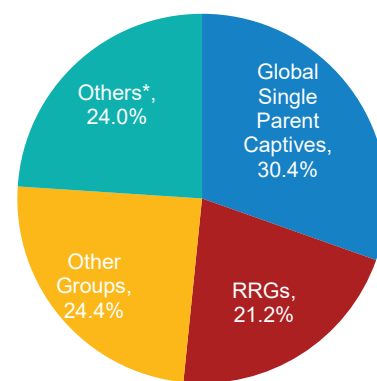
AM Best's Rated Global Captives, by Domicile (2024)



Source: AM Best data and research

Exhibit 3

AM Best's Rated Global Captives, by Type



*Includes: Exchanges, Reciprocal, SIFs, and Cells
Source: AM Best data and research

coverage for in the commercial market, such as business interruption, medical stop loss, and professional liability. Additionally, captives offer solutions for certain emerging risks, including cyber exposures and risks related to sustainability and regulatory compliance. Beyond large corporations, the evolution of captives as risk transfer vehicles has opened the door for SMEs to participate as well in customizable alternative risk transfer through options like group captives, RRGs, and protected cell facilities.

In group captive structures, enterprises often combine their resources to manage their risks more efficiently. This facilitates affordable risk sharing and enhancement of overall loss control. Additional benefits include access to coverage in the traditional insurance and reinsurance markets.

RRGs are specialized insurance entities formed under the federal Liability Insurance Risk Retention Act of 1986, created specifically to provide liability insurance for businesses within the same industry or with homogenous risk profiles. A defining characteristic of RRGs is their member-owned structure, which makes their insured policyholders also the owners. This gives insureds direct oversight of the RRG's operations, coverage terms, and risk management strategies. As a result, RRGs can deliver tailored coverages, stable premium rates, and cost savings through collective risk pooling. RRGs typically offer their members lines in a working layer of low retentions and modest/moderate policy limits supported by reinsurance. Many MPL insurers have used RRGs as a means to expand their geographic footprint and enter new states.

Protected cell companies are increasingly popular due to their speed, cost efficiency, and relative ease of establishment. They offer flexibility to be converted into fully licensed captives in the future. While a protected cell structure is a single legal entity, each cell within it has its own assets and liabilities that are legally segregated from the other cells and the core. This structure enables multiple participants to operate independently within the same framework while benefiting from shared administrative and regulatory costs. Cell formations have gained traction in the US due to their flexibility and “rental” nature that can easily be created or dissolved without impact to the rest of the organization. Product offerings in cells can be quite homogeneous across a platform or offer a menu of coverages with similar retentions and limits that have been customized for cell owners (such as SMEs).

Strategic Alternative and Economic Efficiency

The purposes for the formations and increased usage in captives and other ART entities in the hard market have typically been evaluated through an enterprise risk management lens and/or a feasibility study. When risks appear overpriced or unavailable at the terms and conditions a company may need, captives have the flexibility to step in and customize if they have appropriate capital support. In our sample of AM Best-rated captives, the increased usage of captives has saved their owners close to \$6.6 billion over the past five years (**Exhibit 4**) that would have gone to the commercial market.

Operating Results – Captive Profitability Consistently Outperforms Traditional Market

For many years now, AM Best-rated captives have outperformed the commercial insurance market in both underwriting and operating profitability.

Exhibit 4

US CIC – Policyholders' Surplus (YE 2024)

(\$ millions)

	2019 PHS	2024 PHS	Increase	Stock and Policyholder Dividends	Total Savings
SPCs	10,992	15,196	4,204	1,024	5,228
RRGs	2,860	3,443	583	109	692
All Other Rated Captives	11,763	11,623	-140	858	718
Total Rated Captives	25,615	30,262	4,647	1,991	6,638

Source: AM Best data and research

The exhibits in this section compare the rated US captives in the Captive Insurance Composite (CIC) to companies in the Commercial Casualty Composite (CCC). The five-year average combined and operating ratios before dividends of the CIC outperformed those of CCC as shown by the CIC's combined ratio of 88.0 (vs. 97 for the CCC) and 78.5 operating ratio (vs. 86.4 for the CCC) (**Exhibit 5**). This outperformance has led to substantial growth in captives' retained earnings and surplus growth.

The historical drivers of the CIC's outperformance are largely unchanged and include the captives' efficiency in managing and mitigating risk, their ability to control operating costs, and their focused approach to underwriting. Additionally, as self-insurance vehicles, captives are incentivized to focus on loss control and the preservation of capital, as opposed to chasing profitability and higher rates of return.

Although captives are not created with the intention of being profit centers for their organizations, they are highly profitable (**Exhibit 6**). We expect that, barring unforeseen systemic catastrophic events, captives' results will continue to be favorable in 2025.

Premium Growth

In 2024, premium growth remained consistent with the single-digit growth trends seen prior to 2022, with an increase in direct premiums written (DPW) of 4.7%. Prior to 2022, premiums had been relatively flat, with a compound annual growth rate of just under 2%. The growth rate in net premiums written in 2024 decelerated to 6.8% from a notable increase of 26.9% in net premiums written in 2022. For captives, premium increases typically correspond to exposure increases (i.e., more usage of the captive for new lines or coverages) more so than rate increases. Historically, stable premiums have long been a feature of captives, as these companies have more control managing and monitoring their risks and setting actuarial pricing. The rise in premiums was mainly due to (1) rate increases reflecting traditional market conditions as well as stemming from inflationary pressures and (2) increased participation in the captive programs, all in response to the continued hardening of the (re)insurance market. Unlike some of their peers in the commercial market, AM Best-rated captives have not been materially impacted by the higher frequency or severity of weather and natural catastrophes in the past five years.

Exhibit 5

US CIC – Five-Year Combined Ratios (YE 2024)

	Combined Ratio (Ex Div)	Operating Ratio
SPCs	75.7	56.5
RRGs	94.5	83.8
All Captives (CIC)	88.0	78.5
5-Year CCC	97.0	86.4

Source: AM Best data and research

Exhibit 6

US CIC – Financial Indicators, 2020-2024

(\$ millions)

Year	Net Premiums		Pretax Operating Income/Loss		Net Income/Loss		Admitted Assets		Loss & LAE Reserves		Year End Surplus	
	Written	% Chg	Loss	% Chg	Loss	% Chg	% Chg	% Chg	% Chg	% Chg	% Chg	% Chg
2020	4,800	2.0	821	-14.1	1,076	-11.5	41,833	4.9	9,335	5.6	25,910	4.5
2021	5,008	4.3	690	-16.0	980	-8.9	44,447	6.2	9,801	5.0	27,605	6.5
2022	6,357	26.9	1,592	130.8	1,023	4.3	45,427	2.2	10,109	3.1	27,295	-1.1
2023	6,859	7.9	1,698	6.7	1,545	51.1	48,984	7.8	10,492	3.8	29,406	7.7
2024	7,323	6.8	1,251	-26.3	1,323	-14.4	51,125	4.4	11,676	11.3	30,262	2.9
5 Yr. CAGR		9.3						5.1		5.7		4.1
5 Yr. Chg.		55.7						28.2		32.1		22.1

Source: AM Best data and research

Exhibit 7

US CIC – Ratio Analysis, 2020-2024

(%)

	Loss & LAE	Underwriting Expense	Combined (Ex Div)	Policyholder Dividends	Net Inv. Ratio	Operating Ratio
2020	68.2	18.1	86.3	12.7	17.0	82.0
2021	66.2	18.5	84.7	15.8	13.9	86.6
2022	62.2	15.2	77.4	5.1	14.7	67.8
2023	72.4	16.5	88.9	6.7	21.8	73.8
2024	81.1	17.4	98.5	5.5	20.9	83.1
5 Yr. Avg. (CIC)	71.0	17.0	88.0	8.6	18.1	78.5
5 Yr. Avg. (CCC)	68.4	28.6	97.0	0.2	10.9	86.4

Source: AM Best data and research

Underwriting Results

Underwriting results experienced minimal volatility from 2020 through 2023 but did experience weakening in the combined ratio (**Exhibit 7**) during the past two years. In 2024, the CIC's combined ratio before policyholder dividends saw its second largest single-year increase in five years, 98.5, up 9.6 points from 2023, mainly due to inflationary pressures and an increase in retentions as well as an increase in the pure loss ratio in most of the segments offered by SPCs. The unfavorable results can be attributed primarily to an 8.7-point increase in the loss and loss adjustment expense (LAE) ratio, driven by a 10-point increase in the pure loss ratio and offset slightly by an improvement in the LAE ratio. Furthermore, the underwriting expense ratio worsened by 0.9 points from the prior year, as both commission and other expenses have crept up relative to premium earned (**Exhibit 8**).

In 2024, the policyholder dividend ratio decreased approximately one point from 2023. The 5.5 policyholder dividend ratio was the second lowest since 2020. Lackluster operating results in 2024 due to inflationary pressure as well as an increase in appetite for retention increases resulted in pressure on surplus and drove the reduction in dividends. Dividend payments were down compared to 2020 and 2021 but higher than in 2022 and are unlikely to have a material impact on member retention levels.

Investment Results

Given that capital preservation is often the captives' primary investment objective, these companies maintain highly conservative investment portfolios, which have historically generated investment yields lower than the commercial market. Since 2020, the CIC's return on invested assets (ROIA) has been generally favorable, with the exception of negative results in 2022, when both the equity and bond markets performed poorly in the rapidly rising interest rate environment (**Exhibit 9**). After generally recovering most of its lost values in 2023 with improving financial conditions and markets, 2024 results have been favorable, with an approximate 5% return on invested assets reflecting \$362 million in realized gains and \$220 million in unrealized capital gains, due to continuing recovery in the equity markets and a more predictable and favorable interest rate environment for bonds.

Exhibit 8

US CIC vs. CCC – Underwriting Expense Analysis (YE 2024)

	Commission Expense Ratio		Other Expense Ratio		Total Underwriting Expense Ratio	
Year	US CIC	CCC	US CIC	CCC	US CIC	CCC
2020	1.3	12.8	16.8	16.6	18.1	29.3
2021	2.0	12.7	16.5	15.9	18.5	28.5
2022	2.0	12.8	13.2	15.1	15.2	27.9
2023	2.8	13.2	13.7	14.9	16.5	28.2
2024	3.6	14.1	13.7	15.1	17.4	29.2
5 Yr. Avg.	2.5	13.2	14.5	15.4	17.0	28.6

Source: AM Best data and research

Exhibit 9

US CIC vs. CCC – Profitability Analysis, 2020-2024

(%)

Year	Inv Yield	NII (W/RCG)	Total ROIA	POI/ NPE	NII/ NPE	Total ROR	POI/ PHS	NII/ PHS	Total ROE	Loss & LAE	Under- writing Expense	Operating Ratio
2020	2.1	3.0	3.8	17.9	23.5	29.5	3.2	4.2	5.3	68.2	18.1	82.0
2021	1.7	3.0	4.2	14.1	20.1	28.1	2.6	3.7	5.1	66.2	18.5	86.6
2022	1.9	1.2	-2.2	30.2	19.4	-4.1	5.8	3.7	-0.8	62.2	15.2	67.8
2023	3.4	3.9	5.3	26.0	23.6	32.1	6.0	5.4	7.4	72.4	16.5	73.8
2024	3.4	4.3	4.8	17.2	18.2	21.2	4.2	4.4	5.2	81.1	17.4	83.1
5 Yr. Avg. (CIC)	2.5	3.1	3.2	21.2	20.8	21.5	4.4	4.3	4.5	71.0	17.0	78.5
5 Yr. Avg. (CCC)	3.6	3.7	4.1	12.5	10.3	11.3	11.5	9.5	10.4	68.4	28.6	86.4
10 Yr. Avg. (CIC)	2.6	3.2	3.4	24.5	23.8	24.8	5.0	4.8	5.0	66.7	17.8	75.5
10 Yr. Avg. (CCC)	3.7	3.9	4.0	12.1	10.5	10.8	10.4	9.0	9.3	69.1	29.3	87.0

RCG = Realized capital gains

Source: AM Best data and research

Captives continue to benefit from good cash flows and solid net investment income (NII), which allows this composite to post better than average operating ratios each year. The average operating ratio over the last five years was 78.5 compared to 86.4 for the CCC. In 2024, NII growth tapered to 6.5% after increasing by nearly 84% in 2023, marking the third consecutive year of growth after declining in the persistently low interest rate environment prior to 2022. The improvement in NII can be attributed in part to higher interest rates on newly issued fixed income securities.

SPCs Generate Better Operating Results, Albeit with Volatility

Reported earnings of the SPC composite companies shrank approximately 15% in 2024 but are at the second-highest level in the current five-year period due to another solid year of underwriting results, enhanced by strong net investment income, although realized capital gains have been limited (**Exhibit 10**). SPCs have been consistently profitable for their organizations, generating operating ratios of 56.5 on average over the 2020-2024 period (**Exhibit 11**). An integral factor of the SPCs' historical success has been their deep understanding of their policyholders' risks (i.e., their own loss data), which allows the SPCs to quickly implement loss mitigation strategies when needed to minimize policyholders' losses in the future. It also reflects the advantages that stem from SPCs' close alignment with, and deep understanding of, their policyholders' risks, allowing them to price coverage more efficiently than the broader commercial market.

In 2024, the loss and LAE ratio deteriorated to the worst level in the past five years, driven by an increase in the pure loss ratio in most of the segments offered by SPCs. It should be noted that loss & LAE ratios for SPCs have been trending upwards in the last two years, but five-year combined ratios remain below the commercial casualty and property composites, driven by low expense ratios from a reduced regulatory burden and the absence of marketing and distribution costs. Low underwriting expense ratios have historically been a key differentiator in SPCs' outperformance of the commercial market on a pre-dividend combined ratio basis.

Revenue return metrics are usually quite high for SPCs, as net investment income is often quite large relative to the amount of annual premium written into the captive. Equity returns, however, are typically quite low, as their profitability is often dwarfed by the size of equity bases supporting the operations.

Economic benefits of SPCs to owners can be measured by both their addition to surplus growth and by the dollar amount of dividends they return to their parents. In the five years ending 2024, the surplus of rated US-domiciled SPCs increased by 34.4%, to \$15.2 billion, even after nearly \$1 billion

Exhibit 10

SPC Composite – Financial Indicators, 2020-2024

(\$ millions)

Year	Net Premiums Written	% Chg	Pretax Operating Income/ Loss	% Chg	Net Income/ Loss	% Chg	Admitted Assets	% Chg	Loss & LAE Reserves	% Chg	Year End Surplus	% Chg
2020	1,761	5.3	887	-9.6	779	-6.7	16,170	6.3	2,689	1.9	11,310	7.1
2021	1,812	2.9	765	-13.7	644	-17.2	17,538	8.5	2,904	8.0	12,348	9.2
2022	3,002	65.7	1,063	38.9	860	33.5	20,456	16.6	2,937	1.1	13,516	9.5
2023	3,393	13.0	1,403	32.0	1,111	29.2	22,468	9.8	3,251	10.7	14,728	9.0
2024	3,576	5.4	1,165	-17.0	943	-15.2	23,400	4.2	3,744	15.2	15,196	3.2
5 Yr. CAGR		16.4						9.0		7.2		7.6
5 Yr. Chg.		113.8						53.8		41.9		43.9

Source: AM Best data and research

Exhibit 11

SPC Composite vs. CCC – Profitability Analysis, 2020-2024

(%)

Year	Inv Yield	NI/ (W/ RCG)	Total ROIA	POI/ NPE	NI/ NPE	Total ROR	POI/ PHS	NI/ PHS	Total ROE	Loss & LAE	Under- writing Expense	Operating Ratio
2020	2.0	2.4	2.6	54.9	48.3	48.7	8.1	7.1	7.2	57.2	6.8	46.3
2021	1.1	1.3	1.5	43.8	36.9	37.5	6.5	5.4	5.5	60.9	7.0	58.2
2022	1.6	1.7	1.2	55.3	44.7	41.3	8.2	6.7	6.1	51.4	6.5	43.5
2023	4.2	4.3	4.2	44.1	35.0	35.2	9.9	7.9	7.9	73.2	7.2	55.9
2024	4.0	4.1	4.1	32.4	26.2	26.6	7.8	6.3	6.4	81.1	9.2	68.2
5 Yr. Avg. (SPC)	2.7	2.9	2.8	43.8	36.0	35.7	8.2	6.7	6.7	68.1	7.5	56.5
5 Yr. Avg. (CCC)	3.6	3.7	4.1	12.5	10.3	11.3	11.5	9.5	10.4	68.4	28.6	86.4

RCG = Realized capital gains.

Source: AM Best data and research

in dividends. The SPCs retained close to \$4.6 billion for future losses that would otherwise have been forfeited to the commercial market's profits.

RRG Results Weaken Due to Higher Loss Adjustments

In 2023, the net income of the RRG composite observed a modest increase of 2% prior to the drop observed in 2022 (**Exhibit 12**), owing largely to an increase in other income and net investment income, and bolstered by realized capital gains. This is despite weaker underwriting results year-over-year (**Exhibit 13**). Underwriting results (combined ratio before dividends) deteriorated to its worst level in the past five years in 2024 due to an increase in LAE partially offset by an improvement in their pure loss ratio.

The pure loss ratio improved four points year-over-year as most of the segments with the most premium written covered by RRGs experienced fewer pure losses on a year-over-year basis. However, LAE deteriorated to its highest level in the last five years, driven by persistent social inflation and rising legal costs related to litigated settlements that continue to significantly impact claims severity for RRGs writing in all segments, as well as an increase in frequency of losses. Increases in combined and expense ratios could indicate a level of pricing inadequacy that RRGs may have some flexibility to correct, even if it is through policyholder dividend adjustments, which are critical to their member retention as well.

Balance Sheet Strength – Generally Very Strong Capital Bases for Covered Risks

As mentioned, with insurance being a prospective risk management exercise, captives and ART entities are largely very well capitalized on a risk-adjusted basis as measured by BCAR (Best's Capital

Exhibit 12

RRG Composite – Financial Indicators, 2020-2024

(\$ millions)

Year	Net Premiums		Pretax Operating Income/Loss		Net Income/Loss		Admitted Assets		Loss & LAE Reserves		Year End Surplus	
	Written	% Chg		% Chg		% Chg		% Chg		% Chg		% Chg
2020	851	11.1	120	-10.9	161	-1.9	5,535	7.7	1,686	6.6	2,855	7.5
2021	918	7.9	114	-4.7	168	4.4	6,052	9.3	1,823	8.1	3,034	6.3
2022	991	8.0	165	44.0	95	-43.3	6,086	0.6	1,993	9.3	2,800	-7.7
2023	1,102	11.2	193	17.4	203	113.0	6,688	9.9	2,134	7.1	3,162	12.9
2024	1,223	11.0	192	-0.6	207	1.9	7,285	8.9	2,364	10.8	3,443	8.9
5 Yr. CAGR		9.8						7.2		8.4		5.3
5 Yr. Chg.		59.7						41.8		49.4		29.6

Source: AM Best data and research

Exhibit 13

RRG Composite vs. CCC – Profitability Analysis, 2020-2024

(%)

Year	Inv Yield		NII (W/ RCG)		Total ROIA		POI/ NPE		NI/ Total ROR		POI/ PHS		NI/ Total ROE		Loss & LAE		Under-writing Expense		Operating Ratio	
2020	2.4	3.7	5.9	15.0	20.1	31.7	4.4	5.8	9.2	70.2	24.9	84.1								
2021	2.0	3.6	3.7	12.9	19.0	20.2	3.9	5.7	6.1	69.2	25.2	87.2								
2022	2.2	1.1	-6.1	17.3	10.0	-23.0	5.6	3.3	-7.5	68.9	21.5	81.8								
2023	2.9	3.7	6.1	18.4	19.4	30.5	6.5	6.8	10.7	69.3	24.3	81.8								
2024	3.4	4.2	5.1	16.3	17.6	21.9	5.8	6.3	7.8	73.7	24.5	84.2								
5 Yr. Avg. (RRG)	2.6	3.3	3.0	16.1	17.2	16.3	5.3	5.6	5.3	70.4	24.1	83.8								
5 Yr. Avg. (CIC)	2.5	3.1	3.2	21.2	20.8	21.5	4.4	4.3	4.5	71.0	17.0	78.5								
5 Yr. Avg. (CCC)	3.6	3.7	4.1	12.5	10.3	11.3	11.5	9.5	10.4	68.4	28.6	86.4								

RCG = Realized capital gains.

Source: AM Best data and research

Adequacy Ratio) model, which models our view of appropriate levels of capital required to support investment, reserves, underwriting, and catastrophic risks. In the attached appendices, a significant majority of Balance Sheet Strength assessments are in the top two criteria categories of Strongest and Very Strong.

SPCs and cells typically cover low-frequency, high-severity type losses, offering high limits to their owners as a percentage of surplus contributed by the parent. They may provide only a deductible reimbursement or be part of a corporate reinsurance program. Losses beyond the limit would go back to the owner to satisfy the remainder of the losses. Owners often capitalize with cash or loanback arrangements. Cell owners also capitalize with cash, standby letters of credit approved by regulators, or surplus notes. Appropriate capitalization also includes a review of capital management (i.e., dividends) and other capital sources available to support an entity (i.e., financial flexibility).

Surplus for SPCs consists of organic growth and has increased each year over the past decade. In the past five years, the surplus increased 44%, and over the past 10 years, it increased 84%. The long-dated positive metrics of SPC balance sheets contribute to historical positive attributes such as the quality of capital, asset liability management, and liquidity. Due to the solid balance sheet strength SPC's developed, they periodically pay dividends to the parent. In fact, in review of the SPC surplus growth and the sum of dividends paid over the past five years, SPCs saved \$5.2 billion (\$4.2 billion in surplus growth and \$1 billion in dividends) that remains within the enterprise rather than if they deployed those funds in the traditional commercial market for coverage.

The other type of captives generally offer working layer retentions supported by reinsurance. Losses beyond retention pierce the reinsurance and rely on quality reinsurance partners to adjudicate and settle the claim expeditiously.

AM Best monitors the quality of capital and types of investments as well as the supported risks to derive its BCAR. Balance sheet assessment is further supported by analysis of several other financial condition drivers such as, liquidity measures, reserve adequacy and development, underwriting risks, and, when applicable, growth charges of exposure beyond a prudent rate. Our capital adequacy assessment also includes stress tests to review the volatility of BCAR and the impact on the financial condition to move forward should they experience a full limit or probable maximum loss (PML) scenario-type loss.

Opportunities and Challenges for Captive Insurers

Captives continue to be a tool used by enterprises to drive efficiencies in managing risks. AM Best has observed that the purpose—and utilization—of captives can change over time in response to commercial market and economic conditions. For example, a captive may add new lines of business or increase its participation in existing coverages depending on what is occurring in the general commercial insurance market and what best fits the needs of its insureds or members. Below are some current market conditions that captives have been used to address.

Cyber

The rise in cyber attacks has led to heightened demand for cyber coverage across all organizations, regardless of size or industry. Attacks using AI (artificial intelligence) are becoming more sophisticated, as are ransomware and business email hacks. Therefore, organizations cannot afford to ignore these risks and must incorporate cyber risk mitigation strategies within their ERM program.

Although cyber insurance rates have moderated recently, cyber continues to be explored as an area where captives can step in and help their insureds by providing coverage or filling in hard-to-place gaps within an existing cyber program. For example, an SPC may participate within a specific layer in its parent's cyber tower or be used as a means to buy down or fill a deductible. As a benefit, using the captive enables the parent to pivot during challenging markets and grants the enterprise flexibility. A growing number of parent organizations have found it advantageous to have their captive include a form of cyber coverage in its program, not only diversifying the captive's risks but also generating savings for the enterprise. In addition, the parent and captive will generally work closely together to develop a cybersecurity plan and loss prevention techniques. AM Best expects the trend of leveraging captives to include cyber to continue.

Employee benefits

Gaining momentum over several years, a growing number of organizations have been using their captive to cover employee benefit risks, including medical, life, and disability insurance coverages. By doing so, an organization can closely manage its costs by controlling rates, terms and conditions, and reducing expenses while combatting medical inflation. Simultaneously, while providing these coverages, the captive will build loss history with a customized set of data to assist with reserving and future decision-making. Many captives will provide benefit coverages in the form of medical cost containment or medical stop-loss, which diversifies the captive's exposures.

Healthcare Liability

Given rising claim severity, nuclear verdicts, and social inflation, captives play an increasingly important role in providing coverage for healthcare liability exposures. Traditionally, many larger

medical groups, hospitals, long-term care, and assisted living facilities have self-insured and used alternative risk transfer options. Healthcare-specific captives have been covering risks such as medical malpractice, professional liability, general liability, workers' compensation, and property, as these offerings might not be available or are too expensive in the commercial market. As the last few years have proven, however, the healthcare landscape is changing rapidly, and risks continue to evolve, such as exposure to cyber liability, telehealth/telemedicine, and reputational risks. In defense, risk managers must proactively assess the role and use of their captive's program, determining when to expand coverages. Captives can provide more predictable pricing, fill holes or gaps in existing programs, and help with accessing reinsurance capacity. In addition, captives can assist with loss prevention and mitigation. Prospectively, healthcare organizations will likely further leverage their captives and control new and emerging risks in innovative ways.

Property

Despite pricing stabilization in the commercial property market segment, concerns persist due to the ongoing impact of catastrophes, particularly secondary perils and flooding, climate change, reinsurance costs, inaccurate risk valuations, and sustained inflationary pressures. Given these conditions, there has been an increase in the number of captives stepping in to provide various forms of property cover. For example, captives can supplement their traditional property programs via deductible reimbursement and deductible buy-down policies, filling in gaps in primary layers or providing excess coverages. As captives take on this exposure, the valuation of properties remains crucial to ensure that potential losses are accurately estimated, particularly as inflation could lead to higher-than-estimated losses.

Parametric Contracts

There continues to be growing interest in parametric coverages as an alternative risk transfer mechanism. Parametric insurance (commonly known as non-indemnity triggers) is distinguished from traditional insurance (indemnity triggers) in two ways: proceeds paid are (1) a stipulated amount that becomes payable when (2) a loss event occurs and a threshold in the parametric trigger is reached. Based on predefined triggers, part of the attraction of parametric contracts is the perceived transparency and certainty of claims settlement. Further, parametric contracts can be tailored to address the specific needs of the insured and could be helpful in filling coverage gaps or covering losses excluded in traditional programs. In some regulatory jurisdictions, these contracts have been recognized as acceptable insurance agreements, with guidance and legislation issued surrounding parametric contract structures. Other jurisdictions, however, may classify a parametric agreement as a derivative or financial instrument, subjecting it to additional scrutiny. Nevertheless, interest remains strong as organizations search for cost-effective, innovative, and flexible solutions to cover hard-to-place risks such as climate-related exposures like wind, floods, and earthquakes, as well as environmental exposures.

State-Owned Property Insurance Captives

In April of 2025, Arkansas Governor Sarah Huckabee Sanders signed into law HB1821, an act to create a more sustainable system of property insurance for public schools, institutions of higher education, and state-owned property. This law established the creation of an Arkansas state-owned captive aimed at cost stabilization for property insurance, and with the enactment, all public schools, state agencies, and institutions of higher education that accept state funds are required to participate in the captive's insurance program. A captive trust fund will be established to manage claims, reserves, and capital, and the captive will be subject to Arkansas captive insurance laws. Oversight of the captive will be maintained by the Arkansas Department of Transformation and Shared Services. The captive is to be formed by July 1, 2025. The state of Arkansas is joining a small list of states that

use a captive to manage state-run property risks. For example, in June of 2022, Tennessee created the Tennessee Captive Insurance Company for the purpose of managing the state's property risks. According to the Tennessee Department of Treasury website, through the program, the state expects to reduce its overall costs, have the ability to insure difficult risks, and have direct access to reinsurance markets, which will increase the likelihood of savings in premiums and other costs associated with the purchase of insurance from the traditional insurance market.

Directors & Officers – Side A

Side A directors and officers (D&O) coverage provides financial protection when a company cannot, or will not, indemnify its individual directors and officers. This may happen for a variety of reasons, such as a court order or bankruptcy, which could expose an individual director or officer's personal assets.

Over the last few years, some US domiciles have adopted legislation allowing for Side A D&O coverage to be provided by captives. In February of 2022, Delaware became the first US state to enact a bill allowing captive insurers to write Side A D&O coverage. In 2023, the Oklahoma Senate Judiciary Committee passed a bill allowing captive insurance companies to insure Side A D&O insurance coverage for Oklahoma corporations. That bill is now law and has been since November 1, 2023. AM Best will continue to monitor developments in other domiciles and if Side A D&O becomes more prominent among captives.

Social Inflation and Litigation Financing

Risks from social inflation, litigation financing, and macroeconomic pressures continued to increase claims costs in 2024. Despite remaining disciplined in claims, risk management, and overall operations, captives are not immune to these market conditions.

Social inflation has been driving up court settlements, and navigating the complexities of social dynamics will remain a challenge for lines of business such as commercial auto liability, professional liability, general liability, and medical professional liability, as well as umbrella and excess liability. Factors contributing to social inflation include attorney advertising, tort reform deterioration, desensitization to large jury awards, and the public's distrust of corporations. These challenges could weaken prior-year loss reserve adequacy over the near term, especially for casualty coverage lines.

Litigation financing plays a significant role in mass tort litigation and often results in costly verdicts. Litigation financing occurs when third-party investor groups provide up-front financing to plaintiff attorneys involved in personal injury and liability litigation in return for a share in the ultimate jury award or settlement. Concerns about litigation funding include the lengthening duration of litigation, plaintiffs who are less inclined to seek resolution in the hopes of securing an extreme verdict, and the outsized influence of those not necessary to the litigation process. As the challenges with social inflation and litigation financing continue to escalate, captives will be forced to adapt and strengthen their claims expertise and claims settlement practices.

IRS's Micro-Captive Regulation

On January 14, 2025, the US Internal Revenue Service (IRS) and the Treasury Department published "Micro-Captive Listed Transactions and Micro-Captive Transactions of Interest" (T.D. 10029), a final regulation identifying certain micro-captive transactions as listed transactions and certain other micro-captive transactions as transactions of interest, both of which are reportable transactions. As a result, material advisors and certain participants in listed transactions and transactions of interest are required to file disclosures with the IRS and are subject to penalties for failure to do so. As this

could impose additional administrative, legal, and financial burdens on 831(b) electing captives, organizations will need to consider the increased reporting obligations and heightened scrutiny that will accompany these types of captive formations.

Appendices

The attached appendices are lists of captives and other alternative risk entities' ratings and respective building block assessments as of July 17, 2025.

Appendix 1

Single Parent Captives (SPCs)

Ratings as of July 11, 2025

AMB#	Company Name	Long-Term ICR	Balance Sheet Strength Assessment	Operating Performance Assessment	Business Profile Assessment	ERM Assessment
000152	American Road Insurance Co	a	Strongest	Adequate	Neutral	Appropriate
000381	BlueShore Insurance Company	a	Very Strong	Strong	Limited	Appropriate
003564	Zale Indemnity Company	bbb+	Very Strong	Adequate	Limited	Appropriate
003597	Repwest Insurance Company	a+	Very Strong	Strong	Neutral	Appropriate
003695	British American Ins Co	a	Very Strong	Adequate	Neutral	Appropriate
003771	Dorinco Reinsurance Company	a	Very Strong	Adequate	Neutral	Appropriate
011099	Toyota Motor Insurance Co	a	Strongest	Adequate	Neutral	Appropriate
011309	Bell United Insurance Company	a-	Very Strong	Adequate	Limited	Appropriate
012022	National Telcom Corporation	a-	Very Strong	Adequate	Neutral	Appropriate
014365	Spirit Insurance Company	a	Very Strong	Adequate	Neutral	Appropriate
020822	Federated Underwriting Company	a-	Very Strong	Adequate	Limited	Appropriate
020916	Riverfront Insurance, LLC	a-	Strong	Adequate	Limited	Appropriate
020959	Fidvest US LLC	a-	Very Strong	Marginal	Limited	Appropriate
020964	Pedcor Assurance Company	bbb	Strong	Adequate	Limited	Appropriate
021273	C&T Insurance Company	a-	Very Strong	Adequate	Limited	Appropriate
21376	Popular Re, Inc.	bbb	Strong	Adequate	Limited	Appropriate
21741	Cadence Indemnity Inc.	bbb+	Strong	Adequate	Limited	Appropriate
21742	Rodeo Insurance Company	a+	Very Strong	Strong	Limited	Appropriate
21850	Sustainable Assurance Company	a-	Strong	Strong	Limited	Appropriate
21901	Torreyana Insurance Co, Inc.	a	Very Strong	Strong	Neutral	Appropriate
22608	NiSource Insurance Corp, Inc.	a	Strong	Strong	Neutral	Appropriate
56001	National Guaranty Ins Co of VT	a	Very Strong	Very Strong	Limited	Appropriate
56005	Agrinational Insurance Company	a-	Strong	Adequate	Limited	Appropriate
56427	Tall Pines Insurance Co	bbb	Strong	Adequate	Limited	Appropriate
56604	Vine Court Assurance Inc	a+	Strongest	Strong	Neutral	Appropriate
56744	Sooner Insurance Company	a+	Very Strong	Strong	Neutral	Appropriate
71170	Blue Whale Re Ltd.	a+	Very Strong	Strong	Neutral	Appropriate
71300	Ameriprise Captive Ins Co	a+	Very Strong	Strong	Limited	Appropriate
71304	Hamilton Insurance Corp	a+	Very Strong	Strong	Neutral	Appropriate
71307	Catholic Relief Ins Co of Amer	a-	Very Strong	Adequate	Limited	Appropriate
72318	Prism Assurance, Ltd.	a-	Very Strong	Adequate	Limited	Appropriate
75149	Queen City Assurance, Inc.	a+	Strongest	Strong	Neutral	Appropriate
75701	AES Global Insurance Company	a	Very Strong	Strong	Neutral	Appropriate
76069	Park Assurance Company	a	Very Strong	Strong	Limited	Appropriate

*Building block assessments shown are that of the company's respective rating unit

Source:  BESTLINK

Appendix 2

Risk Retention Groups (RRGs)

Ratings as of July 11, 2025

AMB#	Company Name	Long-Term ICR	Balance Sheet Strength Assessment	Operating Performance Assessment	Business Profile Assessment	ERM Assessment
010010	Amer Contractors Ins Co RRG	a+	Strongest	Strong	Neutral	Appropriate
010704	Paratransit Ins Co, A Mut RRG	a	Very Strong	Strong	Limited	Appropriate
10718	OMS National Insurance Co, RRG	a	Strongest	Adequate	Neutral	Appropriate
10741	Housing Authority RRG, Inc.	a+	Strongest	Adequate	Favorable	Appropriate
10768	United Educators Ins, a RRRG	a+	Very Strong	Adequate	Favorable	Appropriate
10844	Ophthalmic Mut Ins Co (A RRG)	a	Strongest	Adequate	Neutral	Appropriate
11056	Pref Phys Med RRG, Mut Ins Co	a+	Strongest	Adequate	Favorable	Appropriate
11221	STICO Mutual Insurance Co, RRG	a-	Very Strong	Adequate	Limited	Appropriate
11230	California Healthcare Ins, RRG	a	Strongest	Strong	Limited	Appropriate
11238	Western Pacific Mut Ins, A RRG	a-	Strongest	Adequate	Limited	Appropriate
11256	ICI Mutual Ins Co, a RRG	a+	Strongest	Strong	Neutral	Appropriate
11397	Eastern Dentists A Dental RRG	a-	Very Strong	Adequate	Limited	Appropriate
11399	Terra Insurance Co (A RRG)	a+	Very Strong	Very Strong	Limited	Appropriate
11418	New York Municipal Ins Recip	a-	Very Strong	Adequate	Neutral	Appropriate
11431	The Mutual RRG, Inc.	a	Strongest	Strong	Limited	Appropriate
11714	Health Providers Ins Recip RRG	a	Strongest	Adequate	Neutral	Appropriate
12419	Alliance of Nonprofits Ins RRG	a-	Strong	Adequate	Neutral	Appropriate
12707	Pinnacle Consortium VT RRRG	a	Very Strong	Adequate	Neutral	Appropriate
14013	MedPro RRG RRG	aa+	Strongest	Strong	Favorable	Appropriate
14038	Affiliates Ins Recip A RRG	a-	Strong	Adequate	Limited	Appropriate
14143	Integris RRG, Inc.	bbb+	Strongest	Marginal	Limited	Appropriate
14146	AttPro RRG Reciprocal RRG	aa+	Strongest	Strong	Favorable	Appropriate
14310	Coverys Risk Retention Group	a	Strongest	Marginal	Neutral	Appropriate
14377	NCMIC Risk Retention Group	a+	Strongest	Strong	Neutral	Appropriate
14387	MMIC Risk Retention Group, Inc	a	Strongest	Adequate	Neutral	Appropriate
14525	Preferra Insurance Company RRG	a-	Very Strong	Strong	Limited	Appropriate
14999	COPIC, A Risk Retention Group	a	Strongest	Adequate	Neutral	Appropriate
21016	Star Mutual RRG, Inc.	bbb-	Adequate	Adequate	Limited	Appropriate
21641	Indigo Risk Retention Group	a-	Very Strong	Adequate	Limited	Appropriate
21650	NLADA Mutual Ins Co, a RRG	a	Very Strong	Adequate	Neutral	Appropriate
22002	LAMMICO Risk Retention Group	a	Strongest	Adequate	Neutral	Appropriate
22026	Lone Star Alliance, Inc., RRG	a	Strongest	Strong	Limited	Appropriate
22292	MICA Risk Retention Group	a+	Strongest	Strong	Limited	Appropriate
22383	ProAssurance Amer Mut, A RRG	a+	Strongest	Adequate	Favorable	Appropriate
22390	The Doctors Co RRG, Recip Exch	a+	Strongest	Adequate	Neutral	Appropriate
22422	Physicians Insurance RRG, Inc.	a-	Strongest	Adequate	Limited	Appropriate
22619	HPIC Risk Retention Group	a-	Very Strong	Strong	Limited	Appropriate
23087	MLM Risk Retention Group, Inc.	a	Very Strong	Adequate	Neutral	Appropriate
71152	Caring Communities, a RRRG	a	Very Strong	Strong	Limited	Appropriate
75375	Titan Insurance Co, Inc. RRG	a-	Very Strong	Strong	Limited	Appropriate
75492	Natl Independent Truckers RRG	bbb+	Very Strong	Adequate	Limited	Appropriate
75520	Comm Hosp Alt Risk Trans RRRG	a	Very Strong	Strong	Limited	Appropriate
75903	Caregivers United Liab Ins RRG	a-	Very Strong	Strong	Limited	Appropriate
76154	Allied Prof Ins Co, A RRG	a-	Very Strong	Adequate	Limited	Appropriate
76155	Applied Medico-Legal Solns RRG	a-	Very Strong	Adequate	Limited	Appropriate
76779	Restoration RRG, Inc.	a+	Very Strong	Strong	Neutral	Appropriate

*Building block assessments shown are that of the company's respective rating unit

Source:  BESTLINK

Appendix 3

Cell Insurance Company

Ratings as of July 25, 2025

AMB#	Company Name	Long-Term ICR	Balance Sheet Strength Assessment	Operating Performance Assessment	Business Profile Assessment	ERM Assessment
21865	OneNexus Oklahoma Captive Corp.	a-	Very Strong	Adequate	Limited	Appropriate

Source: 

***Updates to the Report**

This report was updated on August 8, 2025, to reflect a change in language to explicitly highlight Bermuda on page 3, and on page 12, a sentence was added to acknowledge an Oklahoma bill was passed and made into law in November 2023.

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