

# BEST'S RATING REPORT



## Nationale Borg Reinsurance N.V.

Kaya Mensing 18, Willemstad, Curaçao

**Mailing Address:** P.O. Box 4489, Willemstad, Curaçao

**AMB #:** 092564

**NAIC #:** N/A

**FEIN #:** N/A

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**Best's Credit Rating Effective Date**

October 22, 2019

**Best's Country Risk Reports Utilized**

[Netherlands - CRT - 1](#)  
[United Kingdom - CRT - 1](#)  
[China - CRT - 3](#)

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**Information**

[Best's Credit Rating Methodology](#)  
[Understanding 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](#).

**Nationale Borg Reinsurance N.V.**

**AMB #:** 092564

**Ultimate Parent:** AMB # 051114 - Liberty Mutual Holding Company Inc.

**Best's Credit Ratings**

**Financial Strength Rating (FSR)**

<b>A</b>
<b>Excellent</b>
Outlook: <b>Stable</b> Action: <b>Upgraded</b>

**Issuer Credit Rating (ICR)**

<b>a</b>
<b>Excellent</b>
Outlook: <b>Stable</b> Action: <b>Upgraded</b>

**Assessment Descriptors**

Balance Sheet Strength	<b>Very Strong</b>
Operating Performance	<b>Strong</b>
Business Profile	<b>Limited</b>
Enterprise Risk Management	<b>Appropriate</b>

## Rating Rationale

### Balance Sheet Strength: **Very Strong**

- Risk-adjusted capitalization measures in the strongest category at year-end 2018 but is expected to decline in 2019 as the company paid a dividend prior to its sale to Liberty Mutual.
- Invested assets include US government bonds. The affiliate loan that appears on the balance sheet was repaid prior to closing, either directly or as part of the dividend payment.
- There have been no material issues with adverse development of loss reserves.

### Operating Performance: **Strong**

- The company has generally produced solid underwriting and operating performance over its history.
- During the most recent years, its results reflect various operational and organizational changes implemented by its former owner, AmTrust Financial Services, Inc. With the new ownership, a return to more consistent and favorable results is anticipated.

### Business Profile: **Limited**

- The company provides a variety of financial insurance and reinsurance products, including some surety offerings.
- Although, it maintains a leading position in the market for some of those products in the Netherlands, it is primarily a niche writer in the global reinsurance market.
- Its management is long-tenured and has maintained underwriting discipline even as expenses reflect the organizational changes indicated previously.

### Enterprise Risk Management: **Appropriate**

- The underlying enterprise risk management (ERM) at Nationale Borg Reinsurance N.V. (NB Re) is appropriate for its unique risks, including those associated with its domicile in Curacao.
- The company has implemented ERM processes as required by the Curacao insurance regulator.

### Rating Lift/Drag

- The company receives explicit financial support from an affiliate in the form of a substantial quota-share reinsurance agreement.
- In addition, the company receives implicit support by being a member of the Liberty Mutual enterprise.

### Outlook

- The rating outlooks for NB Re are stable, reflecting its very strong balance sheet, which is supported by its risk-adjusted capitalization. The rating outlooks are driven by NB Re's historically solid underwriting and operating performance and the appropriate ERM.

### Rating Drivers

- Positive rating action may result from the assessment of the company's role within the Liberty Mutual Insurance enterprise.
- The ratings could be negatively impacted over the intermediate term should underwriting and operating results not consistently return to their historical levels.
- The company's ratings reflect enhancement from the ratings of the members of Liberty Mutual Group. The ratings could be negatively impacted should the ratings of the members of that group be downgraded.

## Credit Analysis

### Balance Sheet Strength

National Borg Re maintains risk-adjusted capitalization at the very strong level. The company's balance sheet strength has been supported by its solid investment portfolio, consisting of high-quality corporate bonds. The company's loss reserves have historically developed favorably. The company maintains relationship with highly-rated non-affiliated reinsurers, in addition to having a quota-share reinsurance agreement with an affiliate under which it cedes 75% of its premiums and losses.

## Operating Performance

NB Re has historically had strong underwriting performance, with a five year average combined ratio of 89.5. The expense ratio reflects the typically high commission structure in the global surety market, although the company's acquisition expenses have been improving in recent years. The loss ratio has varied as a result of changes in the intercompany reinsurance when it was acquired by AmTrust. The increase in the loss ratio reflects the extent to which net earned premium has declined faster in recent years than loss adjustment expenses, which have a fixed component. Acquisition costs do not reflect the benefit of ceding commissions received from AII. The company's five year average ROE of 8.4% is in-line with its market position

In 2018, the company's loss ratio benefited from a slight decrease in overall claims frequency, but this was more than offset by some large individual claims, and an increase in frequency in Chinese and Chilean credit insurance markets. , and is a reflection primarily of changes since its acquisition by AmTrust. Net operating expenses decreased 1.9% (\$1.3 million) mostly due to lower costs related to exchange rate differences.

In 2017, gross written premium increased 9.7% compared to 2016, driven by organic growth of the portfolio, the maturation of some new accounts underwritten in 2016 and 2017, as well as the higher than expected run off premium from canceled accounts. The loss ratio decreased from 49.3% in 2016 to 47.9%. 2017 saw a slightly decreased claim frequency in all products. Isolated severity in surety and political risk insurance claims in Latin America, Lloyds, and the MENA region, combined with frequency claims in the Chinese and Chilean credit insurance markets caused most of the incurred losses. Net operating expenses increased \$1.9 million (42%) driven by an increase in staff expenses caused by the increase of the remuneration of the executive board, a decrease in bad debt expenses, and higher costs related to exchange rate differences.

In 2016, the company's loss ratio rose 6 points to 49.3 resulting from increased claim frequency in all products. Specifically, there were isolated severity surety and credit insurance claims in Spain, Latin America and MENA region combined with frequency claims in the Chinese and Chilean credit insurance markets as well as some substantial market claims in political risk insurance. There are recoveries expected on the political risk insurance claims but it could take a considerable amount of time before these are realized. Gross premium decreased 1.1% compared to 2015 largely caused by the competitive marketplace and by weakening currencies in some emerging markets.

## Business Profile

NB Re is specialist reinsurer providing products in the global surety market. With gross earned premiums of less than 100 million euros and net earned premiums of approximately 20 million euros in the most recent years, it has a modest role in the overall reinsurance market. The company's business profile assessment reflects its niche position.

The company's business profile benefits from its long-tenured management and from the global diversification of its product offerings. In addition, through its focus on a particular market segment, the company is able to build relationships within its target market that enable its generally favorable underwriting results.

## Enterprise Risk Management

As a member of the Liberty Mutual holding Company (LMHC) enterprise, the company will participate in the LMHC Enterprise Risk Management (ERM) program.

The LMHC ERM is comprehensive and extends throughout its worldwide operations. Risk management is a core competency of the enterprise and central to the operational execution of its strategic plan. Oversight of ERM resides with the Enterprise Risk Management Committee (ERMC), chaired by the CEO and coordinated by the CFO, which evaluates exposures and directs ERM actions within the organization's operations. All strategic business unit (SBU) presidents are members of the ERMC, along with key functional leaders with direct responsibility for key components of enterprise level risks (the CFO, Chief Actuary, General Counsel, Chief Investment Officer and Treasurer). The ERMC has oversight of all major enterprise exposures including credit risk, market risk, catastrophe exposure (terror and natural) and emerging risks related to policy coverage, litigation, regulatory and legislative issues. The Risk Committee of the Board of Directors (RCBD) is responsible for ensuring that the company maintains an ERM framework to effectively measure, manage, and mitigate risks that could have a material impact on the company. The Director of ERM Analytics coordinates ERM activities across the SBUs and attends ERMC and RCBD meetings. Capital modeling is a core component of strategic planning and ERM, and is performed across all SBUs and by line and country.

The CEO, CFO or a designee reports on risk management activities four times per year to the RCBD and a minimum of annually to the full Board of Directors. The RCBD also reports to the full Board at least four times per year. If macro-economic or market conditions dictate, the full Board receives updates more frequently. The RCBD reviews whether risk tolerances are acceptable a minimum of four times per year, while the full Board makes such reviews a minimum of once per year. Risk metrics and risk management activities are reported to the SBUs quarterly.

**Rating Lift/Drag**

The rating receives enhancement from the lead rating unit in the Liberty Mutual enterprise, reflecting the substantial affiliated reinsurance contract between NB Ra and Liberty Mutual Insurance Company.

**Financial Statements**

	12/31/2018		12/31/2018
	EUR (000)	%	USD (000)
<b>Balance Sheet</b>			
Cash and Short Term Investments	10,525	4.8	12,048
Bonds	26,613	12.0	30,465
Total Cash and Invested Assets	37,138	16.8	42,513
Reinsurers' Share of Reserves	71,992	32.5	82,412
Debtors / Amounts Receivable	80,691	36.4	92,370
Other Assets	31,811	14.4	36,415
<b>Total Assets</b>	<b>221,632</b>	<b>100.0</b>	<b>253,711</b>
Unearned Premiums	20,551	9.3	23,526
Non-Life Reserves	75,434	34.0	86,352
Total Gross Technical Reserves	95,985	43.3	109,878
Other Liabilities	25,534	11.5	29,230
<b>Total Liabilities</b>	<b>121,519</b>	<b>54.8</b>	<b>139,108</b>
Capital Stock	2,000	0.9	2,289
Paid-in Capital	2,000	0.9	2,289
Retained Earnings	96,272	43.4	110,206
Other Capital and Surplus	-159	-0.1	-182
<b>Total Capital and Surplus</b>	<b>100,113</b>	<b>45.2</b>	<b>114,603</b>
<b>Total Liabilities, Mezzanine Items and Surplus</b>	<b>221,632</b>	<b>100.0</b>	<b>253,711</b>

Source: BestLink® - Best's Financial Suite

US \$ per Local Currency Unit 1.14474 = 1 Euro (EUR)

## Nationale Borg Reinsurance N.V.

### Operations

**Last Update**

November 07, 2019

**Identifiers**

**AMB #:** 092564

**LEI #:** 21380060TCECA7V12D34

**Contact Information**

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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.

**Domiciled:** Curaçao

**Business Type:** Property/Casualty

**Organization Type:** Stock

**Financial Size:** VIII (\$100 Million to \$250 Million)

### Best's Credit Ratings

#### Rating Relationship

**AM Best Rating Unit:** 092564 - Nationale Borg Reinsurance N.V.

Refer to the [Best's Credit Report for AMB# 092564 - Nationale Borg Reinsurance N.V.](#) 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 2016. 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
<b>Current -</b>							
<b>Oct 22, 2019</b>	<b>A</b>		<b>Stable</b>	<b>Upgraded</b>	<b>a</b>	<b>Stable</b>	<b>Upgraded</b>
Apr 17, 2019	A- u	g (Group Rating)	Positive	Under Review	a- u	Positive	Under Review
Jul 3, 2018	A-	g (Group Rating)	Stable	Downgraded	a-	Stable	Downgraded
Nov 6, 2017	A u	g (Group Rating)	Negative	Under Review	a u	Negative	Under Review
Feb 27, 2017	A	g (Group Rating)	Negative	Affirmed	a	Negative	Affirmed

## Management

**Supervisory Board:** F.J.M. Hoeben, A.P. Van der Woude, J.M.R.S. van Eps.

**Board of Management:** G. J. Hollander, A.P.J.C. Kroon, I. M. Nijenhuis.

## History

### Recent M&A Transactions

Announced on	Closed on	Transaction Type	Target	Acquirer	Seller
04/15/2019	10/02/2019	Acquisition	Nationale Borg Reins	Liberty Mut Hldg Co	AmTrust Finan Svcs

Search for this company in [Mergers & Acquisitions](#) in BestLink for additional details and previous transactions.

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.

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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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