

BEST'S RATING REPORT

NATIONALE | BORG REINSURANCE

NATIONALE BORG REINSURANCE N.V.

Domiciliary Address: 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 29, 2021

Best's Country Risk Reports Utilized

[Curaçao - CRT - 3](#)

Analytical Contacts

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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](#).

Nationale Borg Reinsurance N.V.

AMB #: 092564

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

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**

- Risk-adjusted capitalization measured in the strongest category at year-end 2020, and it improved slightly from its year-end 2019 level, reflecting the reduction in capital required to support the company's diminishing net written premium.
- Invested assets are composed of corporate bonds with solid credit ratings.
- There have been no material issues with adverse development of loss reserves although IBNR was increased in early 2020 in the event of an increase in claim activity related to the COVID-19 pandemic.

Operating Performance: **Adequate**

- The company will continue renewals of multi-year contracts and provision of service on all outstanding policies. Other business is being placed by Nationale Borg Reinsurance N.V. (Nationale Borg Re) with affiliated entities, but it will continue to provide policyholder services.
- Based on the historical performance of the company's business and loss reserves, AM Best anticipates the remaining liabilities will run off favorably over time although there may be variation in the progress of the runoff from year to year.
- The company historically produced solid underwriting and operating performance. During the more recent years, results reflected various operational and organizational changes implemented by its former owner, AmTrust Financial Services, Inc.

Business Profile: **Limited**

- The company has suspended issuance of new policies. Multi-year policies will continue to be serviced through expiration. New and other renewal business being renewed onto the paper of an affiliate, with Nationale Borg Re continuing to provide policyholder services.
- The company historically provided niche reinsurance products.
- Its management is long-tenured, and key personnel remained with the company following its acquisition by Liberty Mutual.

Enterprise Risk Management: **Appropriate**

- The underlying enterprise risk management (ERM) at Nationale Borg 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 Nationale Borg Re are stable, reflecting its very strong balance sheet, which is supported by its risk-adjusted capitalization, the expectation that the loss-reserving practices will result in favorable runoff of the company's liabilities, and breakeven or better net results in most years, which will sustain a stable level of capital. The outlooks also contemplate Liberty Mutual's continued reinsurance support.

Rating Drivers

- The ratings could be negatively impacted should the runoff of the company's remaining loss reserves not follow its historically favorable development patterns.
- The ratings could be negatively impacted should the company produce persistent net losses that drive a material decline in risk-adjusted capitalization.
- The ratings could be negatively impacted by any reduction in the support provided by the parent company.

Credit Analysis

Balance Sheet Strength

Nationale Borg Re's risk-adjusted capitalization is at the strongest level as measured by Best's Capital Adequacy Ratio (BCAR), despite surplus decline in recent years. However, the company's balance sheet strength has been supported by its solid investment portfolio, consisting of high-quality corporate bonds, loss reserves which have historically developed favorably as well as the company's relationship with highly-rated non-affiliated reinsurers, and the quota-share reinsurance agreement with an affiliate under which it cedes 75% of its premiums and losses.

Capitalization

Asset Liability Management - Investments

Holding Company Assessment

Operating Performance

Nationale Borg Re has historically had strong underwriting performance, with a five-year average combined ratio of 89.0 through 2020. AM Best's expectation is that loss reserves will run-off adequately overall, although there may be some variation in reserve changes year-over-year. While investment income is expected to decline as a result of the reduction in invested assets, operating income should be sufficient to offset any underwriting losses that may be produced, resulting in profitable to break-even operating results.

As noted above, the company has historically produced favorable underwriting and operating results. The expense ratio reflected the typically high commission structure in the global surety market, although the company's acquisition expenses improved in the more recent years. The loss ratio varied as a result of changes in the intercompany reinsurance when it was it was acquired by AmTrust. The increase in the loss ratio reflects the extent to which net earned premium declined faster in recent years than loss adjustment expenses, which have a fixed component. Acquisition costs did not reflect the benefit of ceding commissions, and appear high relative to industry averages as a result.

The company is currently in run-off.

Business Profile

Nationale Borg Re was placed into run-off status upon the close of its acquisition by Liberty Mutual Insurance. Nationale Borg Re's business is being renewed onto the paper of Liberty Mutual Re. Policies that inceptioned prior to the close of the acquisition will continue to be serviced by Nationale Borg Re until their natural expiration.

Nationale Borg Re operated as a specialist company providing reinsurance in the global surety market. It had a modest role in the overall reinsurance market, but its products meet a niche need for certain surety reinsurance capacity.

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

Enterprise Risk Management (Continued...)

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 Nationale Borg Re and Liberty Mutual Insurance Company.

Financial Statements

	12/31/2020		12/31/2020
	EUR (000)	%	USD (000)
Balance Sheet			
Cash and Short Term Investments	15,021	11.5	18,452
Bonds	21,550	16.6	26,472
Total Cash and Invested Assets	36,571	28.1	44,924
Reinsurers' Share of Reserves	75,662	58.1	92,943
Debtors / Amounts Receivable	7,996	6.1	9,822
Other Assets	9,976	7.7	12,255
Total Assets	130,205	100.0	159,944
Gross Technical Reserves:			
Unearned Premiums	10,835	8.3	13,310
Non-Life Reserves	90,048	69.2	110,615
Total Gross Technical Reserves	100,883	77.5	123,925
Other Liabilities	4,987	3.8	6,126
Total Liabilities	105,870	81.3	130,051
Capital Stock	2,000	1.5	2,457
Paid-in Capital	2,000	1.5	2,457
Retained Earnings	19,665	15.1	24,156
Other Capital and Surplus	670	0.5	823
Total Capital and Surplus	24,335	18.7	29,893
Total Liabilities, Mezzanine Items and Surplus	130,205	100.0	159,944

Source: BestLink® - Best's Financial Suite
 US \$ per Local Currency Unit 1.2284 = 1 Euro (EUR)

Nationale Borg Reinsurance N.V.

Operations

Last Update

October 29, 2021

Identifiers

AMB #: 092564

LEI #: 2138006OTCECA7V12D34

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: VI (\$25 Million to \$50 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
Current -							
Oct 29, 2021	A		Stable	Affirmed	a	Stable	Affirmed
Oct 29, 2020	A		Stable	Affirmed	a	Stable	Affirmed
Oct 22, 2019	A		Stable	Upgraded	a	Stable	Upgraded
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

Management

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

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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