

BEST'S CREDIT REPORT

FM Global Group

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[Best's Credit Rating Methodology](#) | [Disclaimer](#) | [Best's Credit Rating Guide](#)

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FM Global Group

Credit Report

Report Release Date:

April 1, 2019

Group Members Rating Effective Date:

February 28, 2019

Disclosure Information: Refer to rating unit members for each company's Rating Disclosure Form

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Associated Ultimate Parent: [004067 - Factory Mutual Insurance Company](#)

A.M. Best Rating Unit: 018502 - FM Global Group

Best's Credit Ratings for Group Members:

Rating Effective Date: February 28, 2019

AMB#	Company	Rating Unit	Best's Financial Strength Ratings			Best's Issuer Credit Ratings		
			Rating	Outlook	Action	Rating	Outlook	Action
018502	FM Global Group	<i>Rating Unit</i>						
004067	Factory Mutual Insurance Co		A+	Stable	Affirmed	aa	Stable	Affirmed
000103	Affiliated FM Insurance Co		A+	Stable	Affirmed	aa	Stable	Affirmed
002345	Appalachian Insurance Co		A+	Stable	Affirmed	aa	Stable	Affirmed
086513	FM Insurance Company Limited		A+	Stable	Affirmed	aa	Stable	Affirmed
095193	FM Insurance Europe S.A.		A+	Stable	Affirmed	aa	Stable	Affirmed

Rating Rationale:

Balance Sheet Strength: Strongest

- FM Global's risk-adjusted capitalization, as measured by Best's Capital Adequacy Ratio (BCAR), is considered to be at the strongest category at the 99.6% confidence level. FM Global's balance sheet has been time-tested, as a leading global property insurer and its ability to withstand catastrophes year over year.
- Substantial reinsurance capacity plays an integral role in preserving capital.
- The group's ability to generate capital is impressive when measured on a compound average growth rate (CAGR) over the last 10 years.
- Total Insured Value (TIV) grew faster than surplus in 2018 for the first time in several years due to a weak earnings year from a second consecutive year of high cat activity.

- Equity leverage is consistently higher than that of the composite, generating significant long-term gains through prudent management, but exposes the balance sheet to periodic market corrections.

Operating Performance: Strong

- Historical operating performance is strong and consistent. Non-catastrophe trends are neutral/slightly positive and prospective operating performance is expected to be strong. However, volatility due to catastrophes is moderate to high.
- Above average underwriting performance -- a direct byproduct of FM Global's extensive risk management, loss prevention services and engineering expertise. Also reflects FM Global's leadership position in insuring highly protected risks (HPR), which are facilities that meet the highest protection standards.
- Strong results are net of membership premium credits afforded to policyholders, which are due to favorable loss experience and implementation of the group's loss control and loss prevention recommendations.
- Accident year (AY) loss reserve development has been favorable in each of the past 10 years on lower original loss ratio picks than those of the industry composite. Legacy asbestos and environmental reserves are long-dated and have been benign.

Business Profile: Favorable

- The group is a well-recognized, global market leader in the commercial and industrial property space.
- A broker market "go to" for large commercial highly protected property risks.
- Strong defensible competitive advantages through its global reach, extensive engineering expertise and risk mitigation / loss prevention services.
- Diversified operations in key markets that have high to moderate barriers to entry with low competition.
- Strong management team coupled with highly effective research-based engineering and a strong reinsurance program.

Enterprise Risk Management: Appropriate

- FM Global has demonstrated excellent ERM through loss control and minimization recommendations implemented by its policyholders that have been manifested in superior operating profitability, driving balance sheet strength that AM Best assesses as 'Strongest'.
- The insurer's ERM framework is well developed and/or appropriate given the size and complexity of its operations. Risk management capabilities are very good and are well aligned with the risk profile of the group.
- The group is a well-run organization that has been a consistent property and casualty insurer with a strong and experienced management team that has plenty of depth.
- FM Global has an embedded all-encompassing framework and plan instilled in its corporate culture to effectively identify, measure, monitor, report and control or mitigate both its internal and external sources of risk.
- The ERM strategy is embedded into multiple levels of internal controls that ensure adherence and compliance in transacting the group's business model.

Outlook

The stable outlooks reflect AM Best's expectation that FM Global Group's risk-based capitalization and operating performance will continue its generally excellent trends through the near to medium term.

Rating Drivers

Positive rating action could result if the group continues to produce strong underwriting and operating performance over an extended period of time.

Negative rating action could result if operating performance or risk-adjusted capitalization falls markedly short of AM Best's expectation.

Financial Data Notes:

Time Period: Annual - 2018

Status: A.M. Best Quality Cross Checked

Key Financial Indicators:

Key Financial Indicators (000)

	Year End - December 31				
	2018	2017	2016	2015	2014
Premiums Written					
Direct	3,928,922	3,550,622	3,508,681	3,422,594	3,441,729
Net	3,628,584	3,423,295	3,284,984	3,267,817	3,288,769
Pre-tax Operating Income (\$000)	-1,033,436	-1,002,499	837,320	730,625	1,002,214
Net Income	-103,165	-363,668	695,841	680,696	803,774
Total Admitted Assets	20,423,211	20,660,155	18,243,619	16,910,776	16,291,711
Policyholders' Surplus	11,241,267	12,501,777	11,519,356	10,546,654	10,141,846

Source: Bestlink - Best's Statement File - P/C, US

Key Financial Indicators - A.M. Best Ratios (%)

	Year End - December 31				
	2018	2017	2016	2015	2014
Profitability					
Combined Ratio	138.6	138.3	83.6	86.5	76.2
Investment Yield	1.9	1.8	1.8	2.0	2.0
Pre-Tax Return on Revenue	-29.9	-28.3	25.3	22.4	31.5
Leverage					
Non-Affiliated Investment Leverage	68.9	73.6	73.0	72.6	74.5
Net Premiums Written to Policyholders' Surplus	0.3	0.3	0.3	0.3	0.3
Net Leverage	1.1	0.9	0.9	0.9	0.9
Liquidity					
Overall Liquidity	225.9	257.9	275.6	269.8	267.6
Operating Cash-Flow	99.4	105.5	123.0	120.0	128.4

Source: Bestlink - Best's Statement File - P/C, US

(*) Within several financial tables of this report, this company is compared against the Commercial Property Composite.

(*) Data reflected within all tables of this report has been compiled through the A.M. Best Consolidation of statutory filings.

Best's Capital Adequacy Ratio Summary - AMB Rating Unit (%)

Confidence Level	95.0	99.0	99.5	99.6
BCAR Score	65.8	54.7	49.3	47.9

Source: Best's Capital Adequacy Ratio Model - P/C, US

Credit Analysis:

Balance Sheet Strength: Strongest

Capitalization:

Notwithstanding the elevated level of extraordinary losses that occurred in 2017 and 2018, FM Global's balance sheet once again showed its resilience as the group continued to grow capital and surplus at a growth rate that outperforms the industry average. Risk-adjusted capitalization more than adequately supports FM Global's risks at the highest confidence intervals, as measured by Best's Capital Adequacy Ratio (BCAR). This favorable capital position is reflective of the group's conservative underwriting leverage, slightly offset by FM Global's elevated common stock leverage and comparatively high level of high risk (schedule BA) assets. Although the group maintains exposure to natural and man-made catastrophes, these risks are mitigated through an extensive risk management program and reinsurance which mitigates FM Global's net exposures to levels in line with the group's capital level.

The group has achieved solid surplus growth through operating earnings. However, future surplus growth may be constrained from sudden swings in the equities markets, like the one's demonstrated in the first and fourth quarters of 2018. The majority of the group's surplus growth is the result of strong underwriting earnings along with steady investment income. The group has more than doubled its policyholder surplus over the past 10 years, driven by strong operating earnings augmented by capital gains. Surplus growth has also outpaced growth in Total Insured Values (TIV). Based on the group's history, the expectation is that underwriting profits will continue to favorably impact surplus over the medium term with results dipping in select years under heightened loss experience. AM Best expects risk-adjusted capitalization will remain strong over the medium term, as it has with two consecutive years of high catastrophe losses. The expectation assumes a normalized level of natural catastrophes, absence of a major terrorist event and stabilization of equity markets.

Capital Generation Analysis

	Year End - December 31				
	2018	2017	2016	2015	2014
Pre-tax Operating Income (\$000)	-1,033,436	-1,002,499	837,320	730,625	1,002,214
Realized Capital Gains (\$000)	749,659	205,398	136,152	175,551	163,584
Income Taxes (\$000)	-180,613	-433,433	277,631	225,480	362,025
Unrealized Capital Gains (\$000)	-1,207,144	1,608,234	283,176	-169,818	252,798
Net Contributed Capital (\$000)	-333	-333	-333	-333	-333
Other Changes (\$000)	50,130	-261,812	-5,982	-105,737	-67,849
Change in Policyholders' Surplus (\$000)	-1,260,510	982,421	972,702	404,808	988,390
Change in Policyholders' Surplus (%)	-10.1	8.5	9.2	4.0	10.8

Source: Bestlink - Best's Statement File - P/C, US

Capitalization: (Continued...)

Liquidity Analysis (%)

	Company					Industry Composite				
	Year End - December 31					Year End - December 31				
	2018	2017	2016	2015	2014	2018	2017	2016	2015	2014
Quick Liquidity	80.8	102.9	108.5	103.1	102.3	44.8	61.0	59.9	57.7	57.2
Current Liquidity	160.6	189.5	209.5	202.6	200.3	105.2	122.3	118.6	120.6	116.6
Overall Liquidity	225.9	257.9	275.6	269.8	267.6	173.1	191.6	188.4	191.5	179.7

Source: Bestlink - Best's Statement File - P/C, US

Industry Composite: Commercial Property Composite - Bestlink - Best's Statement File - P/C, US

Asset Liability Management – Investments:

FM Global invests its assets in a manner that is designed to ensure adequate liquidity to fund future liabilities. To the extent that its total assets exceed its liabilities (i.e. surplus), excess assets are generally invested in equity securities in accordance with management's view of a long term investment horizon.

The group's common stock leverage is well above its peer composite average (by design), but has declined over the years. Approximately 1/3 of total investments are in long term bonds. The group also invests in High Risk Assets consisting of real estate held by an affiliate and in approximately 83 limited partnerships. These investments represent approximately 10% of the group's investment portfolio and approximately 15% of surplus. The group has approximately \$350 million in contractual unfunded commitments to these partnerships. The group also invests in approximately \$306 million (3% of surplus) of non-investment grade bonds.

FM Global's balance sheet is sound, with invested assets exceeding liabilities by comfortable margins. Current and quick liquidity measures compare favorably to industry composite norms and are enhanced by strong underwriting and operating cash flows. With the implementation of higher deductibles and attachment points, as well as ongoing rate adequacy, and engineering and loss control initiatives, cash flows from underwriting and operations have remained strong since 2002. Given the group's historically strong cash flows and solid risk-based level of capitalization, FM Global is largely protected against the need to liquidate any investments at a loss in order to meet its cash needs. A.M. Best expects cash flows from operations to remain strong in the medium term.

Liquidity

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Bond Portfolio - 2018 Bonds Distribution by Maturity (%)

	Years					Years Average Maturity
	0-1	1-5	5-10	10-20	20+	
Government	0.2	18.2	8.9	...	0.8	5.0
Government Agencies and Municipal Bonds	0.4	8.1	13.1	5.4	13.0	13.2
Industrial and Misc.	0.9	16.0	12.4	0.4	2.1	6.3
Total	1.6	42.3	34.5	5.8	15.8	8.7

Source: Bestlink - Best's Statement File - P/C, US

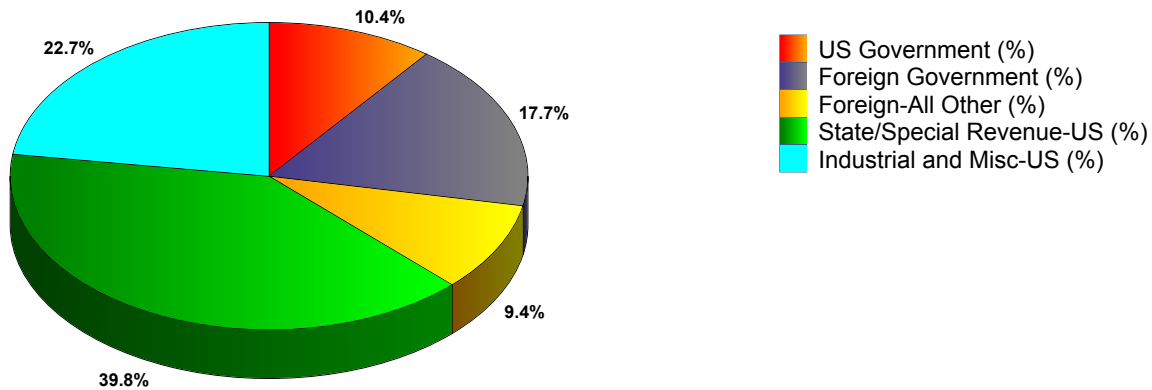
Asset Liability Management – Investments: (Continued...)

Bond Distribution by Issuer Type

	Year End - December 31				
	2018	2017	2016	2015	2014
Bonds (\$000)	6,709,920	6,108,870	5,795,694	5,377,000	5,012,895
US Government (%)	10.4	9.2	10.0	9.5	9.6
Foreign Government (%)	17.7	14.8	12.0	9.7	11.1
Foreign-All Other (%)	9.4	7.2	9.2	9.5	6.2
State/Special Revenue-US (%)	39.8	45.1	44.7	45.0	45.5
Industrial and Misc-US (%)	22.7	23.7	24.0	26.3	27.6

Source: Bestlink - Best's Statement File - P/C, US

2018 Bond Distribution By Issuer Type



Source: Bestlink - Best's Statement File - P/C, US

Reserve Adequacy:

The group has reported favorable loss reserve development across most accident years driven by the recognition of redundancies in property lines of business, with some adverse development occasionally recorded for asbestos & environmental (A&E) losses.

According to A.M. Best's estimates, FM Global ranks among the top 30 largest carriers in the United States in terms of its potential exposure to asbestos and environmental claims, with an historical market share (based on net premiums) of 0.2%. FM Global reported approximately \$690 million in net A&E reserves at year-end 2018, with 86% of this amount pertaining to asbestos liabilities. The group's net A&E reserves represent approximately 14% of its overall net loss reserve base and roughly 6% of consolidated surplus. A considerable portion of the group's potential A&E liability stems from its discontinued assumed reinsurance business, which poses more uncertainty than primary business due to its reliance on ceding companies for claims information. Also, claim payments tend to develop more slowly than for primary insurers. The group maintains a centralized claims unit that continues to evaluate, monitor and process claims.

Reserves increased 15% in 2018, or \$623 million, to \$4.9 billion primarily due to a high volume of individual risk losses and 2018 catastrophe experience.

As a result of changes in estimates of insured events related to prior years, the provision for losses and loss adjustment expenses decreased by \$72 million and \$101 million in 2018 and 2017, respectively. The decreases were due to the reduction of incurred-but-not-reported (IBNR) reserves based on actual experience and decreases on a small number of individual losses.

Reserve Adequacy: (Continued...)

Loss and Allocated Loss Adjustment Expense Reserve Development

Calendar Year:	Year End - December 31				
	2018	2017	2016	2015	2014
Original Loss Reserves (\$000)	4,666,516	4,054,202	2,479,852	2,439,315	2,233,652
Developed Reserves Thru Latest Year End (\$000)	4,666,516	4,015,726	2,304,603	2,149,545	2,232,969
Development to Original (%)	...	-0.9	-7.1	-11.9	...
Development to Policyholder Surplus (%)	...	-0.3	-1.5	-2.7	...
Developed Reserves to Net Premiums Earned (%)	135.1	113.5	69.7	65.9	70.2
Unpaid Reserves @ Latest Year End (\$000)	4,666,516	2,047,064	914,887	818,342	762,523
Unpaid Reserves to Developed Reserves (%)	100.0	51.0	39.7	38.1	34.1

Accident Year:	Year End - December 31				
	2018	2017	2016	2015	2014
Original Loss Reserves (\$000)	2,619,452	2,656,533	1,256,178	1,214,507	1,082,789
Developed Reserves Thru Latest Year End (\$000)	2,619,452	2,724,206	1,153,677	1,001,054	995,747
Development to Original (%)	...	2.5	-8.2	-17.6	-8.0
Unpaid Reserves @ Latest Year End (\$000)	2,619,452	1,132,177	96,545	55,819	5,493
Accident Year Loss Ratio (%)	112.0	112.6	58.4	48.9	53.6
Accident Year Combined Ratio (%)	140.7	142.5	87.1	77.3	79.3

Source: Bestlink - Schedule P (Loss Reserves) - P/C, US

Operating Performance: Strong

Historically, FM Global has produced strong operating returns, driven by solid underwriting earnings along with sound and steady investment income. The group's underwriting earnings have resulted from the group's persistent loss control procedures, low expense ratio and (particularly in prior years) favorable market conditions. As market conditions have softened, operating profits have remained strong due to the group's adherence to conservative risk management and pricing strategies. Aside from the group's higher than average catastrophe loss years in 2017 and 2018, the group has generated significant underwriting profits. Above average results are primarily due to its strong market position, highly protected risk expertise, and strong risk management capabilities.

Underwriting results included approximately 44 and 38 points of catastrophe losses for 2018 and 2017, respectively. Before 2017, results were reflective of more normalized loss years versus 2013 and 2014 which were relatively benign catastrophe years.

While the group's income benefits from its consistent generation of investment income, investment yields slightly lag the average of its peer group. This is primarily the result of FM Global's above-average investment allocation to common equities, which have a lower dividend yield than the average yield on the bonds that comprise a larger percentage of the portfolios of its industry peers. While FM Global's elevated investment leverage adds to earnings volatility with generally below average total return on invested assets, it has generally boosted overall long-term return measures. As a result, the group's total returns on revenue and surplus, which include capital gains and losses, strongly and consistently outperform its peer composite.

Underwriting:

FM Global has typically produced strong underwriting results, reflecting strong risk management capabilities, adequate rates and careful management of terms and conditions. Solid underwriting results in recent years have led the company to periodically provide membership credits, which allow its policyholders to benefit from these favorable results and which encourage the long-term and stable relationship between the group and its customers. Through June 29, 2018, the group is in its fifth consecutive year of membership credits (tenth overall). The company has paid approximately \$4 billion since 2001.

Underwriting results are underpinned by the group's very detailed knowledge of each risk. FM Global does not use actuarial methods to set prices but instead relies on its staff to establish appropriate rates based on exposure and risk mitigation initiatives of individual insureds. This expertise has contributed to ultimate catastrophe losses approximating 1/2 of modeled losses. As of August, 2018, the group has more than 1,800 engineers employed which is more than the next ten competitors combined. Additionally, the group has a state-of-the-art industrial testing facility that tests both the causes of loss (largely fire focused) and mitigation / minimization of losses.

The group's underwriting performance remains exposed to future acts of terrorism. Under the TRIPRA extension, FM Global's retention (deductible) is \$607 million for 2018, plus 18% of all certified losses in excess of this deductible. Nearly 60% of FM Global's policyholders have accepted the terrorism coverage offered by the group under TRIPRA. However, the vast majority of these exposures are represented by horizontal or campus-like risks that are generally not exposed to a total loss. The group does purchase additional terrorism reinsurance outside of TRIPRA. Should TRIPRA expire, management has devised a plan to minimize the potential impact from a terrorist event.

Investment Results

FM Global's investment yields have declined slightly over the current five-year period and are somewhat below industry composite results, reflecting the group's elevated level of common equity holdings. Total investment returns (including capital gains) slightly exceed those of the group's peer composite but have volatility caused by capital gains and losses on the group's substantial equity portfolio, rising and falling with shifts in the equity market. Over the five-year period, the group's net investment income has generally increased, primarily driven by growth in the invested asset base as a result of favorable operating income and positive cash flows offset by modest dividend income on the group's increasing equity holdings and declines in interest yields on the group's long-term bonds. As such, despite the increase in invested assets, the group's overall yield declined on its bond portfolio while a greater percentage of its investment holdings produced minimal income on the year.

Financial Performance Summary (000)

	Year End - December 31				
	2018	2017	2016	2015	2014
Pre-tax Operating Income	-1,033,436	-1,002,499	837,320	730,625	1,002,214
Net Income	-103,165	-363,668	695,841	680,696	803,774

Source: Bestlink - Best's Statement File - P/C, US

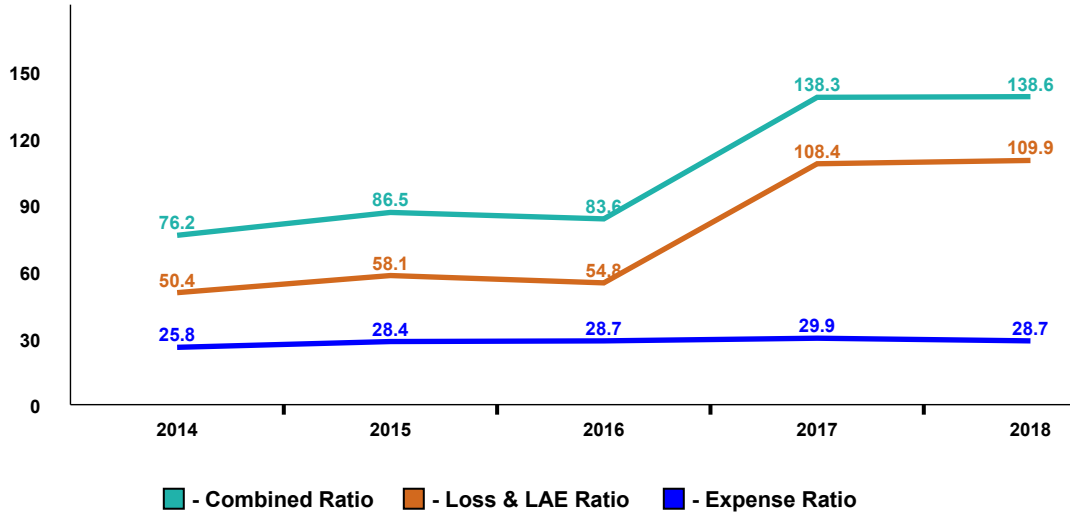
A.M. Best Ratios (%)

	Company					Industry Composite				
	Year End - December 31					Year End - December 31				
	2018	2017	2016	2015	2014	2018	2017	2016	2015	2014
Operating Ratio	128.3	129.2	74.4	77.0	67.1	102.4	105.1	86.5	86.4	87.6
Realized Return on Invested Assets	6.1	3.0	2.7	3.2	3.2	4.3	4.0	2.9	2.9	3.4
Pre-Tax Return on Revenue	-29.9	-28.3	25.3	22.4	31.5	-3.8	-4.7	12.7	16.2	13.6
Return on Surplus	-11.0	10.4	8.9	4.9	11.0	-4.9	6.9	8.0	5.7	8.2
Loss & LAE Ratio	109.9	108.4	54.8	58.1	50.4	74.0	78.2	56.6	58.3	60.1
Expense Ratio	28.7	29.9	28.7	28.4	25.8	35.4	34.0	35.8	33.8	32.6
Combined Ratio	138.6	138.3	83.6	86.5	76.2	109.5	114.3	93.2	92.9	93.5
Net Investment Yield	1.9	1.8	1.8	2.0	2.0	2.5	2.9	2.1	2.2	2.1

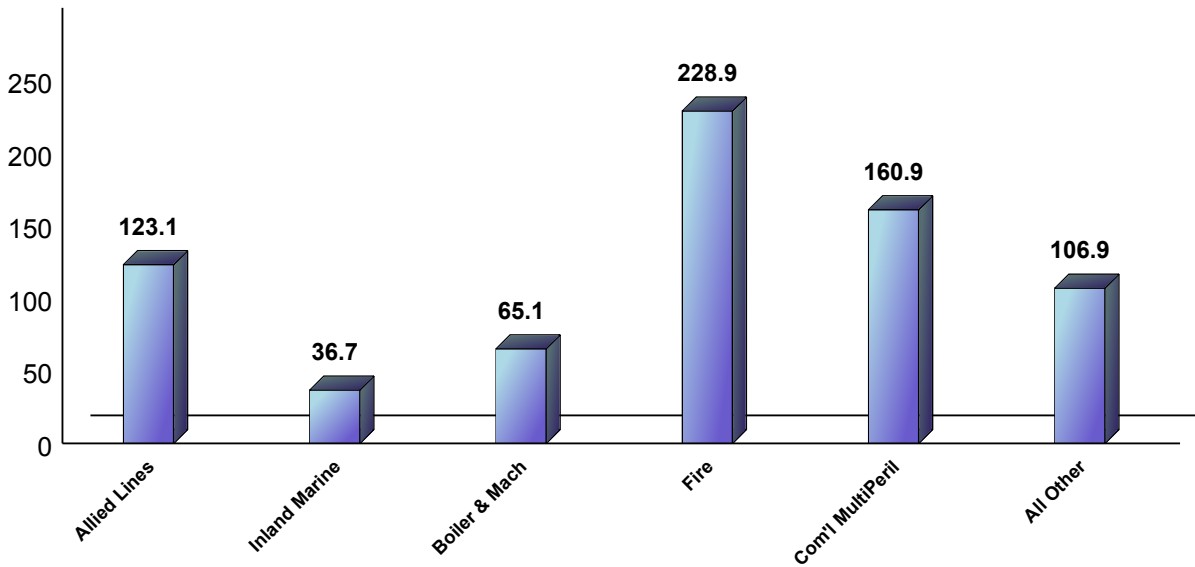
Source: Bestlink - Best's Statement File - P/C, US

Industry Composite: Commercial Property Composite - Bestlink - Best's Statement File - P/C, US

Combined Ratio (%)



2018 Pure Loss Ratio by Product Line (%)



Source: Bestlink - Best's Statement File - P/C, US

Business Profile: Favorable

FM Global is one of the largest underwriters of highly protected risk (HPR) within the commercial property market and is widely recognized throughout the industry for its extensive loss control, risk management and engineering capabilities. FM Global is afforded a distinct competitive advantage over most insurers by virtue of its professional property engineering expertise, inspection and loss prevention services, training and research. These bundled professional services assist FM Global's policyholders in the identification, assessment and management of property risks. In addition to providing global insurance products and value-added services, FM Global is also known for its captive-like orientation and its focus on long-term business partnerships which, in some cases, span more than 100 years. Many of the group's largest policyholder organizations are also members of FM Global's board of directors, advisory boards and risk management executive councils, which reinforces its understanding of the needs of its clients. The majority of FM Global's policyholders maintain worldwide operating facilities and are typically large industrial companies operating in varied manufacturing and servicing industries. Business is produced on a direct basis and through brokers.

Insurance coverage provided includes all-risk policies and policies providing fire and extended coverage, boiler and machinery, difference in conditions, ocean cargo or any combination of these lines of coverage. Business interruption insurance is also offered as a supplement to these lines of coverage. With the implementation of the U.S. government reinsurance of terrorism exposures in November 2002, FM Global was required to offer terrorism coverage to all its insureds with full limits. If TRIPRA ever lapses, insureds will be subject to a significantly lower terrorism coverage sub-limit. Management states FM Global would be reinsured to its \$550 million net retention in a worst case event.

Insurance activities are conducted in the U.S., Canada, and Asia-Pacific through Factory Mutual Insurance Company (FMIC), the lead U.S. carrier and ultimate parent. Additional insurance activities are conducted in the U.S. and Canada through two U.S. operating companies and two Canadian branch offices. FMIC is the lead carrier in the FM Global Group. Affiliated FM specializes in underwriting small and mid-sized highly protected risks as well as better quality non-HPR accounts of all sizes. In addition, Affiliated FM writes associated coverage, including boiler and machinery and ocean cargo. Appalachian writes coverage on a surplus lines basis.

Through its U.K.-based subsidiary, FM Insurance Company Limited (FMI), the group covers the U.K. exposures of its core US companies. US risks with international exposure are accepted by U.S. underwriter and then allocated to US and UK companies proportionally based on its geographical exposure.

FMI had been used to sell policies across the EU from one EU country, using "passporting rights". Since insurers and other financial service firms no longer expect to be able to retain those rights after the British exit from the European Union (BREXIT), FM Global established FM Insurance Europe SA (FMIE SA) in Luxembourg in 2016 as its European Economic Area (EEA) hub since it is a multinational business-friendly financial center with regulatory expertise that permits EU pass-ported. FMIE SA has seven European branches. It began writing business in 2018.

FMI and FMIE SA will continue to comprise approximately 15% of the group's premiums together as a portion of its EU business shifts from FMI to FMIE SA in response to BREXIT.

Risk Engineering Insurance Company Limited (REICL) is incorporated in Bermuda and its ultimate parent is Factory Mutual Insurance Company. REICL is registered in Bermuda as a Class 3A insurer under the Bermuda Insurance Act 1978, as amended (the "Insurance Act"). REICL provides facultative reinsurance to its parent and affiliates.

In the U.S., members of the FM Global Group operate under an intercompany pooling arrangement, effective January 1, 1999. Under this agreement, each company agrees to pool net premiums earned, net loss and loss adjustment expenses incurred, and other underwriting expenses incurred. Effective January 1, 2005, the participation percentages are FMIC, 86%; Affiliated FM, 12%; and Appalachian, 2%.

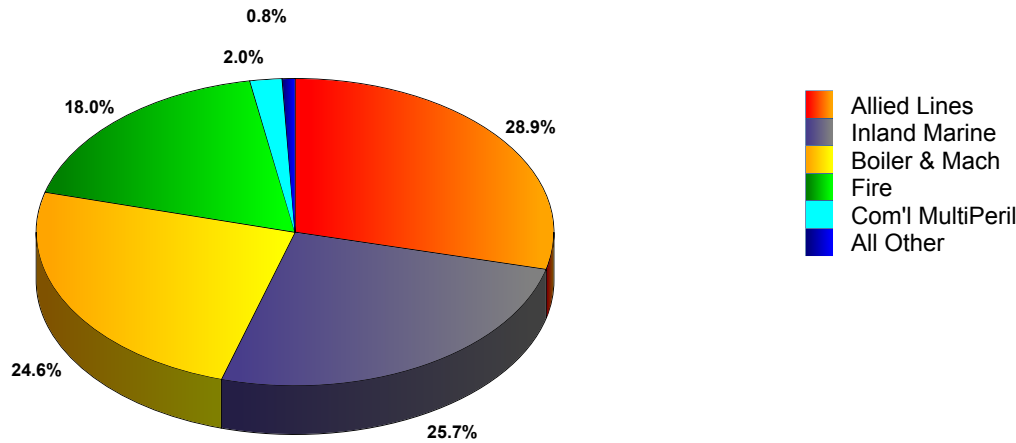
Leverage Analysis

A.M. Best Ratios (%)	Company					Industry Composite				
	Year End - December 31					Year End - December 31				
	2018	2017	2016	2015	2014	2018	2017	2016	2015	2014
Net Premiums Written to Policyholders' Surplus	0.3	0.3	0.3	0.3	0.3	0.7	0.5	0.5	0.5	0.6

Source: Bestlink - Best's Statement File - P/C, US

Industry Composite: Commercial Property Composite - Bestlink - Best's Statement File - P/C, US

2018 Top Product Lines of Business (Net Premiums Written)



Source: Bestlink - Best's Statement File - P/C, US

2018 By-Line Business

Product Line	Direct Premiums Written		Reinsurance Premiums Assumed		Reinsurance Premiums Ceded		Net Premiums Written		Business Retention (%)
	(\$000)	(%)	(\$000)	(%)	(\$000)	(%)	(\$000)	(%)	
Allied Lines	1,277,458	32.5	178,356	21.9	405,799	36.4	1,050,016	28.9	72.1
Inland Marine	1,114,915	28.4	186,994	22.9	368,582	33.0	933,327	25.7	71.7
Boiler & Mach	654,524	16.7	356,573	43.7	118,733	10.6	892,365	24.6	88.3
Fire	773,370	19.7	91,256	11.2	213,017	19.1	651,609	18.0	75.4
Com'l MultiPeril	83,224	2.1	...	...	12,379	1.1	70,845	2.0	85.1
All Other	25,429	0.6	2,059	0.3	-2,934	-0.3	30,422	0.8	110.7
Total	3,928,922	100.0	815,237	100.0	1,115,574	100.0	3,628,584	100.0	76.5

Source: Bestlink - Best's Statement File - P/C, US

Geographical Breakdown By Direct Premium Writings

	2018	2017	2016	2015	2014
California	484,536	457,093	450,810	441,226	458,470
Canada	419,045	391,427	363,609	360,333	346,037
Aggregate Alien	284,447	256,357	234,053	226,836	115,435
Texas	273,348	252,583	259,893	251,844	251,212
New York	185,362	170,346	154,770	159,117	187,365
Florida	142,063	136,031	137,048	147,807	146,459
Illinois	137,296	116,823	112,406	116,791	121,001
Pennsylvania	129,635	111,980	115,664	114,729	123,062
Ohio	103,001	81,949	83,906	80,618	85,266
Washington	102,725	100,301	108,080	105,026	99,701
All Other	1,667,465	1,475,731	1,488,441	1,418,267	1,507,721
Total	3,928,922	3,550,622	3,508,681	3,422,594	3,441,729

Source: Bestlink - Best's Statement File - P/C, US

Enterprise Risk Management: Appropriate

FM Global's board, working in conjunction with senior management, has established risk tolerances that limit the group's exposure to loss from a variety of factors. The senior officer responsible for enterprise risk management (ERM) reports annually to the board on the group's risk tolerance and risk management framework. Risks have been identified in four broad categories: exposure; investment; regulatory/reputation; and operational. Meetings are held regularly to review risk metrics and risk management activities. Emerging risks are discussed and monitored through regular meetings of senior management, local risk management committees at FM entities around the world, and regular meetings with policyholders to discuss product and service offerings.

An important part of the group's ERM strategy is embedded in multiple levels of internal controls designed to ensure adherence and compliance in implementing the group's business model. These controls are integral to FM Global's day-to-day activities, and are monitored and managed by a cross-functional, corporate management team. Processes and procedures are established and audited regularly in all areas of operation based on a variety of factors, including geography, specialty operations, discipline areas and staff functions. In addition to traditional top-down reviews, regular operations reviews have been instituted to provide an assessment of activities. Additionally, the group's internal audit department evaluates and tests the system of internal controls.

Business continuity plans have been developed for all major sites, and incident command team leaders have been appointed for each of these sites. As part of the group recovery/action planning efforts, the group has documented the response to three broad scenarios: 1) lack of access to the IT infrastructure; 2) lack of access to the building; and 3) lack of employees to staff a facility, and periodically tests the planned responses to ensure continuity of availability and responsiveness to customer needs.

Catastrophe Exposure & Management: Aggregate per-risk and catastrophe reinsurance programs are utilized by FM Global to limit its exposure to severe losses, including catastrophes. Due to the complexity of its exposures, FM Global focuses extensively on risk management and maintains gross and net catastrophe exposures that are moderate, as measured by the group's estimated maximum foreseeable loss (MFL) analysis.

The group's net retention of approximately 75% reflects FM Global's ability to retain a higher level of risk than its peers given the group's strong capital position and low underwriting leverage. Although the group has a block of reinsurance recoverables from unrated captive reinsurers, such recoveries are backed by letters of credit or other forms of collateral. Further, its remaining reinsurance recoveries are from highly rated reinsurers, and total recoverables represent a modest percentage of surplus.

Reinsurance Summary:

FM Global is considered to be among the market leaders in terms of global property insurance. Due to the size and complexity of its risks, FM Global utilizes facultative and excess-of-loss treaty reinsurance to reduce its exposure to significant loss events. In examining its

Reinsurance Summary: (Continued...)

exposure to catastrophes, all of FM Global's accounts are individually evaluated (on a location basis) based on maximum foreseeable loss (MFL) estimates.

The group utilizes facultative reinsurance when a policyholder's coverage requirements are outside FM Global's underwriting criteria. In addition to facultative reinsurance, the group maintains excess-of-loss protection of \$1,180 million excess of its \$300 million per-risk retention and \$1,550 million excess of its \$550 million per-catastrophe retention.

Financial Statements:

Balance Sheet:

Consolidated Balance Sheet

Admitted Assets	Year End - December 31			
	2018 (\$000)	2017 (\$000)	2018 (%)	2017 (%)
Bonds	6,709,920	6,108,870	32.9	29.6
Preferred Stock	...	...	...	...
Common Stock	6,461,594	7,960,095	31.6	38.5
Cash and Short-term Invest	1,495,073	1,302,763	7.3	6.3
Real Estate, Investment	...	...	...	...
Derivatives	...	...	...	...
Other Non-Affil Inv Asset	952,796	915,635	4.7	4.4
Investments in Affiliates	2,697,900	2,713,027	13.2	13.1
Real Estate, Offices	...	...	...	...
Total Invested Assets	18,317,283	19,000,390	89.7	92.0
Premium Balances	813,397	688,175	4.0	3.3
Accrued Interest	68,538	67,745	0.3	0.3
All Other Assets	1,223,992	903,845	6.0	4.4
Total Assets	20,423,211	20,660,155	100.0	100.0

Liabilities & Surplus	Year End - December 31			
	2018 (\$000)	2017 (\$000)	2018 (%)	2017 (%)
Loss and LAE Reserves	4,863,699	4,240,355	23.8	20.5
Unearned Premiums	1,817,908	1,643,914	8.9	8.0
Derivatives	...	...	...	...
Conditional Reserve Funds	142,603	146,458	0.7	0.7
All Other Liabilities	2,357,734	2,127,651	11.5	10.3
Total Liabilities	9,181,944	8,158,378	45.0	39.5
Surplus notes	...	...	...	...
Capital and Assigned Surplus	1,250	1,250	...	...
Unassigned Surplus	11,240,017	12,500,527	55.0	60.5
Total Policyholders' Surplus	11,241,267	12,501,777	55.0	60.5
Total Liabilities and Surplus	20,423,211	20,660,155	100.0	100.0

Source: Bestlink - Best's Statement File - P/C, US

Summary of Operations and Operating Cash Flow:

Consolidated Summary of Operations (000)

Year End - December 31

Statement of Income	2018	Net Operating Cash Flow	2018
Premiums earned	3,454,591	Premiums collected	3,569,794
Losses incurred	3,653,940	Benefit & loss-related pmts	3,198,859
LAE incurred	143,086		
Undwr expenses incurred	1,041,999	LAE & undwr expenses paid	1,210,525
Other expenses incurred	...	Other income / expense	...
Dividends to policyholders	499	Dividends to policyholders	489
Net underwriting income	-1,384,933	Underwriting cash flow	-840,078
		Net transfer	...
Net investment income	356,591	Investment income	547,123
Other income/expense	-5,094	Other income/expense	-5,094
Pre-tax operating income	-1,033,436	Pre-tax cash operations	-298,049
Realized capital gains	749,659		
Income taxes incurred	-180,613	Income taxes pd (recov)	-271,970
Net income	-103,165	Net oper cash flow	-26,079

Source: Bestlink - Best's Statement File - P/C, US

FM Global Group

Report Revision Date:

April 4, 2019

Company Attributes:

Industry:	Insurance
Business Type:	Property/Casualty
Entity Type:	Data Consolidation
Organization Type:	Mutual
Business Status:	In Business
Marketing Type:	Direct Response

Company History:

Date Incorporated: 01/01/1835

Date Commenced: N/A

Domicile: United States: Rhode Island

FM Global traces its origins back to the formation of the Factory Mutual System in the 1800s. Allendale Mutual Insurance Company, a founding member of the Factory Mutual System, commenced operations in 1835 under the name Manufacturers Mutual Fire Insurance Company and was formed in Providence, Rhode Island. After several consolidations and re-namings, the name Allendale Mutual was adopted in July 1971. On July 2, 1999, the two other remaining Factory Mutual companies, Arkwright Mutual and Protection Mutual, merged into Allendale Mutual, with the latter changing its name to Factory Mutual Insurance Company. Factory Mutual owns 100% of the stock of the Appalachian Insurance Company, formed in 1941; Affiliated FM Insurance Company, formed in 1949; FM Insurance Company Limited, formed in the U.K. in 1963, and FM Insurance Europe SA formed in 2016.

Company Operations:

2018		
Rank	Top 5 Lines of Business by NPW	
1	Allied Lines	28.9%
2	Inland Marine	25.7%
3	Boiler & Mach	24.6%
4	Fire	18.0%
5	Com'l MultiPeril	2.0%

2018		
Rank	Top 5 Geographic Distribution by DPW	
1	United States: CA	12.3%
2	Canada	10.7%
3	Aggregate Alien	7.2%
4	United States: TX	7.0%
5	United States: NY	4.7%

Source: Bestlink - Best's Statement File - P/C, US

Company Management:

Administration of the group's day-to-day affairs and strategic and operational direction is led by Thomas A. Lawson, chairman and chief executive officer. Mr. Lawson joined the mutual insurance company in 1979 and in 2009 was appointed executive vice president before being named to his current role in 2014. In addition, Jonathan W. Hall, who joined FM Global in 1980, serves as chief operating officer and oversees FM Global's insurance operations and certain insurance staff functions

Additional Resources:

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[Rating Activity and Announcements](#)

[Company Overview](#)

[Archived Best's Credit Report](#)

[Corporate Changes & Retirements](#)

[BestAlert Service](#)

[Best's Credit Ratings Mobile Application](#)

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