HCC Insurance Holdings, Inc.

And Insurance Subsidiaries
Full Rating Report

Ratings

Issuer Default Rating	A–
Operating Companies	
Insurer Financial Strength	AA–

Rating Outlook
Stable

Financial Data
HCC Insurance Holdings, Inc.

($ Mil.,)	2017	2018
Net Income	385	400
Total Capital	5,126	5,285
ROE (%)	9.2	9.4
Combined Ratio (%)	89.0	89.4

Note: GAAP.
Source: HCC Insurance Holdings, Inc.

Related Research
HCC Insurance Holdings, Inc. – Ratings Navigator (August 2019)

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Key Rating Drivers

Ownership Limits Ratings: HCC Insurance Holdings, Inc. (TMHCC) was acquired by Tokio Marine Holdings, Inc. (TMHD) in October 2015 for $7.3 billion. The core operating subsidiaries of TMHD were recently upgraded one notch and removed from Under Criteria Observation with the application of Fitch Ratings' new criteria that removed the top-down sovereign (Japan local-currency sovereign rating: A/Stable) constraint and aligned with TMHCC's ratings.

Consistently Favorable Underwriting Results: TMHCC is a diversified specialty underwriter that maintains a strong market position in a number of narrowly defined, less correlated insurance lines. The company targets a long-run average combined ratio of 88% with its current mix of business. From fiscal 2014 to 2018, the combined ratio averaged 87%.

Very Strong Underwriting Culture: TMHCC compensates both underwriters and executive officers on the company's long-run profitability, encouraging a focus on both short-term and long-term profitability. The compensation strategy and underwriter accountability facilitates the company's generation of consistent solid underwriting results throughout market cycles.

Leader in Specialty Markets: TMHCC operates in lines of business where underwriting skill and analytics can create superior returns long term, and limits activity in segments that compete solely on price. Above-average, long-run performance is also a function of underwriting discipline and a willingness to shrink the premium base as market forces dictate. Additionally, TMHCC is a leader in several niche markets, which gives the company a competitive advantage over peers.

Very Strong Capitalization: Fitch views TMHCC's property/casualty (P/C) insurance subsidiaries capitalization as very strong based on operating leverage of 0.8x and an RBC ratio of 221% as of Dec. 31, 2018. TMHCC's financial leverage ratio remained moderate at 17% as of YE 2018 and has very high fixed-charge coverage due to low interest rates on debt.

Adequate Loss Reserves: TMHCC has a history of favorable reserve experience and the company's overall reserve position developed favorably in 2018. Fitch believes the company's process for setting reserves is robust and is prudent in setting initial reserve levels.

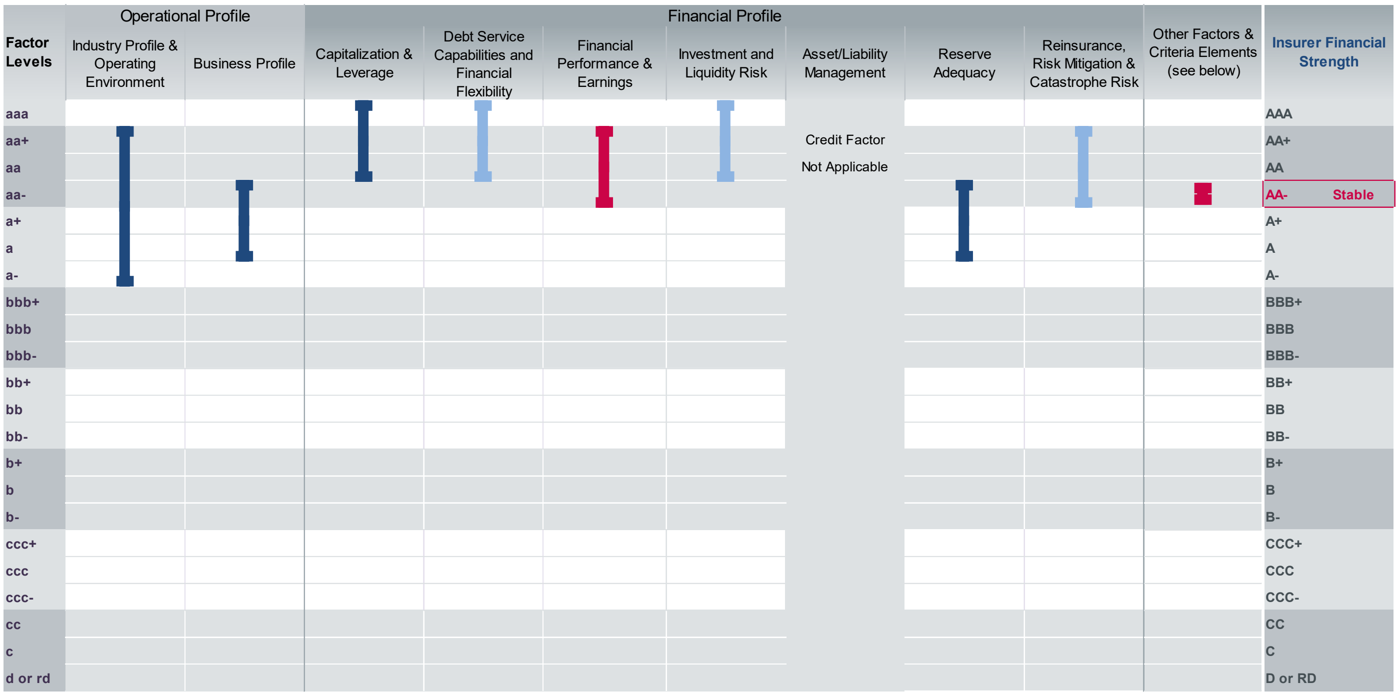
Rating Sensitivities

Factors Supporting a Downgrade: Factors that could lead to a downgrade include a downgrade of TMHCC's standalone credit profile or a downgrade in TMHD's ratings.

Fitch believes it is unlikely that any potential future downgrade of the TMHCC ratings would be to levels lower than those of the parent.

Factors Supporting an Upgrade: Fitch views a rating upgrade as unlikely, but an upgrade of TMHD's ratings could result in an upgrade to TMHCC's ratings.

HCC Insurance Holdings, Inc. (August 16, 2019)



Other Factors & Criteria Elements				
Provisional Insurer Financial Strength				**AA**
Non-Insurance Attributes	Positive	**Neutral**	Negative	+0
Corporate Governance & Management	**Effective**	Some Weakness	Ineffective	+0
Ownership	Positive	Neutral	**Negative**	-1
Transfer & Convertibility / Country Ceiling	Yes	**No**	AAA	+0
Insurer Financial Strength (IFS)			Final:	**AA-**
IFS Recovery Assumption	**Good**			-1
Issuer Default Rating (IDR)			Final:	**n.a.**

Bar Chart Legend:

Vertical Bars = Range of Rating Factor

Bar Colors = Relative Importance

- Higher Influence
- Moderate Influence
- Lower Influence

Bar Arrows = Rating Factor Outlook

- ⇧ Positive
- ⇩ Negative
- ⇳ Evolving
- ▭ Stable

ESG CONSIDERATIONS

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of 3 — ESG issues are credit neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity.

For more information on our ESG Relevance Scores, visit www.fitchratings.com/esg.

Related Criteria

Insurance Rating Criteria (January 2019)

Business Profile

Favorable Profile

TMHCC is a stock company that is 100% owned by TMHD, which is based in Japan and has a business profile score of ‘aa+’ by Fitch. TMHD has actively acquired several other U.S.-based insurers over time, including: Delphi Financial Group (2012) and Philadelphia Insurance Companies (2008). Approximately 40% of TMHD’s operations at YE 2018 are from outside of Japan. TMHCC’s operations are managed separately from other TMHD U.S. operations, but there are various levels of collaboration and shared services among subsidiaries.

TMHCC’s primary product offerings include: agriculture, aviation, property, energy, marine, directors and officers liability, professional liability, surety, credit, and other specialty risks that are lowly correlated. Additionally, the company is a market leader in medical stop-loss coverage. The company divides its operations into three key segments: North America Property & Casualty, Accident & Health, and International.

Favorable Competitive Positioning

Competitive positioning is comprised of two subfactors: general and operating scale. Together these factors aggregate into a favorable position. TMHCC has a leading business franchise within the sector and strong competitive advantages that are partly derived from its franchise. As of YE 2018, the company reported net written premiums of $3.5 billion and shareholders’ equity of $4.4 billion.

Favorable Risk Profile

TMHCC’s risk appetite is lower than the sector as a whole and focuses on reasonable stable and established lines of business. In particular, the company’s expertise as a specialty writer is obtaining adequate rate for the risk that is underwritten. By direct premiums, the largest P/C line of business underwritten is crop insurance.

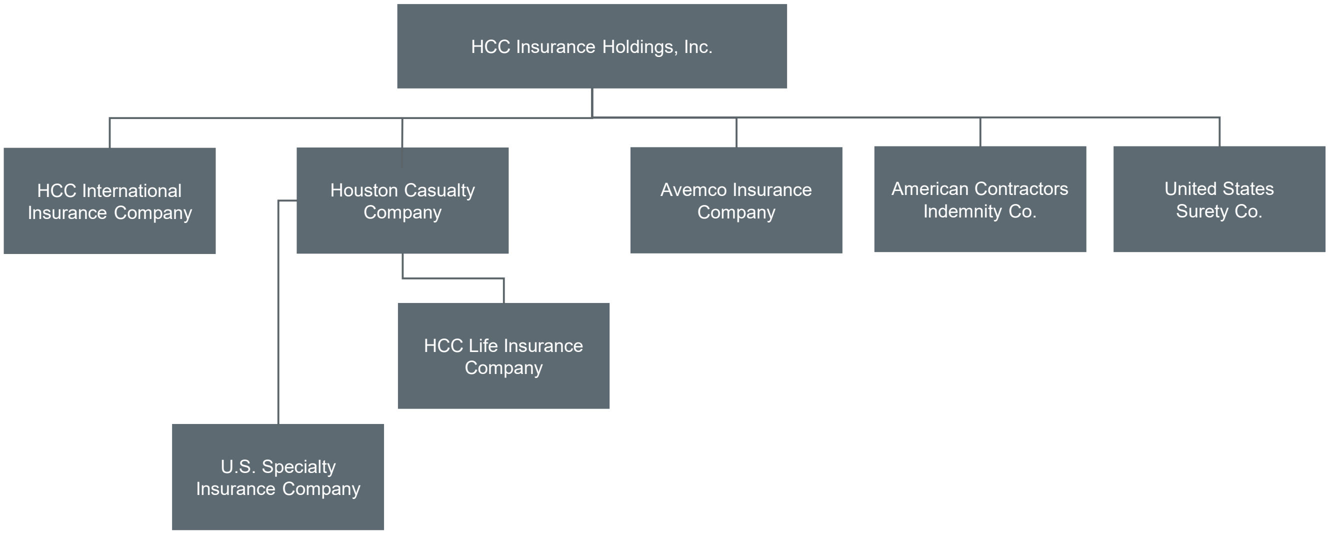
Favorable Diversification

TMHCC’s geographic distribution is diverse as the company writes in multiple foreign jurisdictions. From a products standpoint, TMHCC offers a diverse set of products, and its distribution varies by product lines, but includes wholesale brokers, retail brokers, third-party administrators, Lloyd’s of London, reinsurance brokers, direct to consumers and e-commerce. The company’s agriculture and accident and health lines of business have limited correlation with its other traditional P/C product segments.

Ownership is Negative to the Rating

TMHCC is a specialty insurance group formed in 1974, based in Houston and acquired by TMHD in October 2015 for $7.3 billion. Fitch's standalone rating of TMHCC is one notch higher than current ratings as ownership reduces the ratings by one notch.

Simplified Organizational Structure



Source: HCC Insurance Holdings, Inc.

Capitalization and Leverage

	2014	2015	2016	2017	2018
Total Capital ($ Mil.)	4,728	4,854	5,252	5,126	5,285
Financial Leverage Ratio (%)	18	20	19	20	17
Net Premiums Written/Equity (x)	0.6	0.7	0.7	0.8	0.8
Net Leverage (x)	1.8	1.9	1.8	2.0	1.9
P/C RBC Ratio (%)	268	287	266	226	221
Life RBC Ratio (%)	246	241	260	149	166

Fitch's Expectation

Fitch expects TMHCC's capitalization to remain solid, with operating and net leverage near current levels. Financial leverage is expected to remain at or below 20%.

Note: RBC ratio is calculated at company action level for lead operating subsidiary and is based on statutory accounting. Financial leverage ratio excludes FAS 115. GAAP accounting principles.
Source: HCC Insurance Holdings, Inc. SEC filings.

Very Strong Capitalization

Fitch views TMHCC's capital to be very strong and supportive of the current rating category. Overall capital adequacy has a moderate influence in determining the company's ratings.

Solid Capitalization

Fitch evaluates capital on both a nonrisk-adjusted basis, such as operating and net leverage, and a risk-adjusted basis, such as RBC and Fitch's Prism capital model, to gain a more holistic view of capital. From a nonrisk-adjusted perspective, TMHCC's metrics are slightly favorable relative to the rating category and peer-rated companies.

TMHCC's life RBC declined in 2017 due to the acquisition of American International Group, Inc.'s (AIG) medical stop-loss operations. Since the P/C company owns the life company, the P/C company's decline in RBC was related to ownership of the life subsidiary. Management is working to increase the life RBC over the next several years in line with longer term averages.

Moderate Financial Leverage

Fitch believes TMHCC's financial leverage will approximate the 20% range over the near to intermediate term. TMHCC retired all existing public debt in 2015. The company's current debt structure consists of two debt facilities: a bank term loan and borrowings under a revolving credit facility. Both of these instruments bear floating-rate interest and are significantly cheaper than prior existing debt. Fitch believes that facilities may be extended, and notes that currently have interest rate risk are not hedged, which exposes the company to risk.

'Very Strong' Prism Score

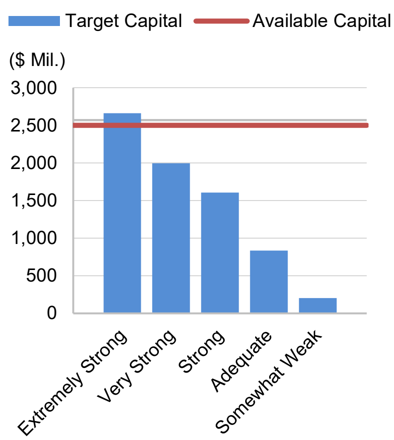
TMHCC scored 'Very Strong' based on YE 2018 results as seen in the figure on page 6. The Prism score is a ratio of available capital (AC) divided by target capital (TC) at various levels, with the Prism score being equal to the highest category where AC exceeds TC. Prism results for 2018 will be available shortly and are not anticipated to differ materially from the prior year.

From a TC perspective, TMHCC benefits from low underwriting leverage, coupled with low loss ratio volatility and a modest expected loss ratio. Conversely, two main drivers of TC for TMHCC are reserves and catastrophe risk. Fitch notes both reserve and catastrophe risk are modest in total; however, when looking at TC drivers as a percentage of the whole, these two risks, along with underwriting, combine to represent almost three quarters of TC.

AC is a range of four different measures that give various haircuts for unrealized gains and losses and affiliated investment values. If companies do not have significant positions in unrealized gains and losses and affiliated investments, the band of AC is relatively narrow. Fitch's AC measure used to calculate the Prism score gives 100% credit for unrealized gains and losses and gives a modest haircut for investments in affiliates. However, Fitch believes there can be value in looking at the range of AC, as certain macroeconomic or industry trends may be better captured in an AC measure other than the base.

Fitch consolidates underwriting reserve and asset exposures from HCC Life Insurance Co., which primarily writes accident and health business, and the international business when analyzing capital via Prism. While Fitch recognizes the benefit unrealized gains have on current financial positions, the agency cautions that all gains from a lower interest rate environment will reverse if the bonds are held to maturity, giving only a temporary raise in capital. Further, if interest rates increase, there will be a reversal in the unrealized gain positions.

2018 Prism Score — HCC Insurance Holdings Group



($ Bil.)	2016	2017	2018
Prism Score	Extremely Strong	Extremely Strong	Very Strong
AC/TC at Prism Score (%)	106	103	130
AC/TC at Higher Prism Score (%)	N.A.	N.A.	97
Statutory Surplus	2.2	2.2	2.3
Affiliated Investments	—	—	—
Unrealized Bond Gains/(Losses)	0.1	0.1	0.0
Other Adjustments	0.1	0.2	0.2
Available Capital (AC Base)	2.4	2.5	2.6
Target Capital Contributors (%)			
Underwriting	30	26	26
Reserves	19	20	15
Investments	17	19	25
Catastrophe	14	14	15
Other	20	21	19

AC – Available capital. TC – Target capital. N.A. – Not applicable. Note: Red line is AC base; shaded area represents the high and low of AC due primarily to value of affiliated life subsidiary and unrealized bond gains/(losses).
Source: Fitch Ratings, S&P Global Market Intelligence.

Debt Service Capabilities and Financial Flexibility

	2014	2015	2016	2017	2018	Fitch's Expectation
Interest Expense ($ Mil.)	28	85[a]	13	21	28	Due to the low interest rates on borrowings, Fitch anticipates that coverage ratios will remain high over the near term.
GAAP Fixed-Charge Coverage (x)	22.2	5.7[a]	45.6	24.0	19.2	
Statutory Fixed-Charge Coverage (x)	12.5	2.8[a]	26.5	12.4	7.4	

[a]These ratios were influenced by early retirement of debt and amortization of bond discount. Adjusted figures are: $32 million for interest expense, GAAP fixed-charge coverage of 13.9x and statutory fixed-charge coverage of 7.5x. Note: GAAP.
Source: HCC Insurance Holdings, Inc. SEC filings.

Very Strong Financial Flexibility and Debt-Servicing Capabilities

Fitch views TMHCC's financial flexibility and debt service capabilities to be very strong and supportive of the current rating category. Overall, this factor has a lower influence in determining the company's ratings.

Favorable Earnings-Based Interest Coverage

TMHCC demonstrates very strong debt-servicing capabilities historically as shown in the table above. Fitch notes that YE 2015 had elevated interest expense due to early retirement of debt and acceleration of a bond discount. Adjusting for these one-time charges shows a fixed-charge coverage ratio in line with prior results.

Due to the company's strong profitability, moderate financial leverage and low interest expense, fixed-charge coverage is anticipated to remain near current levels over the near to intermediate term.

Low Interest Rates on Debt

TMHCC's interest coverage is aided by the low interest rates on the debt that are variable and unhedged. To the extent there are sharp increases in interest rates, Fitch believes TMHCC would hedge some of the interest rate risk, but notes that even a modest increase in rates would still produce very low rates. Nonetheless, the decline in fixed-charge coverage is a function of increased interest expense due to an increase in rates.

TMHCC Debt Outstanding

($ Mil., as of Dec 31, 2018)

Bank Term Loan	475
Revolving Credit Facility	400

Source: HCC Insurance Holdings, Inc.

Sufficient Statutory Dividend Capacity

During 2019, TMHCC's U.S. insurance subsidiaries are permitted to pay $224 million in dividends to the parent without prior regulatory approval from insurance subsidiaries. Holding company cash and investments provide additional liquidity and flexibility.

Financial Performance and Earnings

($ Mil.)	2014	2015	2016	2017	2018
Premiums Earned	2,324	2,774	2,947	3,130	3,404
Pretax Operating Income	595	401	567	486	503
Net Income	458	302	424	385	400
ROE (%)	12.1	7.7	10.4	9.2	9.4
Combined Ratio (%)	82.1	86.1	87.6	89.0	89.4
Operating Ratio (%)	72.6	78.5	80.4	81.6	82.3

Note: GAAP accounting principles. Operating income excludes investment gains/(losses).
Source: HCC Insurance Holdings, Inc. SEC filings.

Fitch's Expectation

TMHCC is expected to maintain solid underwriting results and continue to outperform the aggregate P/C industry given its specialty focus

Very Strong Profitability

Fitch views TMHCC's financial performance and earnings to be very strong and supportive of the current rating category. Overall, profitability has a high influence in determining the company's ratings.

Consistently Strong Operating Performance

TMHCC's underwriting performance is a hallmark of the rating. TMHCC's underwriting expertise in specialty lines has led to consistently strong operating results, evidenced by very strong yoy combined ratios with minimal deviations.

The company's management and underwriters are compensated, in part, on delivering very strong bottom line results over top-line growth. In fact, the company actively reduces writings in lines of business that are too competitive to sustain a strong underwriting margin at the expense of maintaining market share or top-line growth.

TMHCC's combined ratio was 89.4% in 2018, catastrophes losses were lower than the prior year but still slightly elevated. However, the bigger element for yoy deterioration was less favorable development as the company strengthened reserves in North America Property & Casualty and Accident & Health segments.

Fitch published a report in March 2019 titled *North American Property/Casualty Insurers' 2018 Results* and noted that YE 2018 had a GAAP calendar-year combined ratio of 97.2% for a group of 48 companies, with the loss ratio being favorably affected by 1.7 percentage points from favorable reserve development. TMHCC also outperformed the group of publicly held specialty writers whose GAAP calendar-year combined ratio was 96.6% and 3.3 percentage points from favorable reserve development.

Property/Casualty Profitability and Underwriting Performance

(%)	2014	2015	2016	2017	2018
Loss Ratio	57.1	61.9	63.5	65.6	66.9
Expense Ratio	25.4	24.2	24.1	23.4	22.5
Calendar-Year Combined Ratio	82.5	86.1	87.6	89.0	89.4
Prior-Year Reserve	(2.4)	(1.3)	(0.4)	(1.1)	(0.2)
Catastrophe Losses	1.2	0.7	1.4	2.2	1.5
Accident-Year Combined Ratio	84.9	87.4	88	90.1	89.6
AY Combined Ratio, Excluding Catastrophes	83.7	86.7	86.6	87.9	88.1

AY– Accident year. Note: U.S. GAAP accounting principles.
Source: Fitch Ratings; S&P Global Market Intelligence; HCC Insurance Holdings, Inc.

Crop Business Continues to Grow

TMHCC entered the crop insurance market on Jan. 1, 2015, with the acquisition of Producers Ag Insurance Group, Inc. for approximately $100 million. As of YE 2018, crop insurance accounted for approximately 13% of net written premium. Fitch believes crop insurance will continue to grow but at a reduced pace going forward.

Overall, crop insurance performed within expectations. Fitch believes that crop insurance will be a long-term value, enhancing the overall profile as crop insurance has little correlation to its existing book of business. In particular, TMHCC has scale and analytics, two important variables for long-term success in crop insurance.

Segments Remain Profitable

All three of TMHCC's underwriting segments reported an underwriting profit in 2018. North America Property & Casualty was the only segment not to report a better result in 2018 versus prior year due to an increase in reserves because of a construction defect in the primary casualty business.

Investment and Liquidity

	2014	2015	2016	2017	2018	Fitch's Expectation
Total Invested Assets ($ Mil.)	7,267	6,938	7,281	7,115	7,345	Fitch expects TMHCC's investment portfolio to remain conservative, despite the company's attempt to offset the low interest rate environment, with modest increases in higher yielding investments and dividend-paying stocks.
Invested Assets/Common Equity (x)	1.9	1.8	1.7	1.7	1.7	
Risky Assets/Equity (%)	11	8	12	11	5	
Investment Yield (%)	3.2	3.0	3.0	3.2	3.3	

Note: GAAP.
Source: HCC Insurance Holdings, Inc. SEC filings.

High-Quality Investment Portfolio

Fitch views TMHCC's investment and liquidity to be very strong and supportive of the current rating category. Overall investments and liquidity has a lower influence in determining the company's current ratings.

High Credit Quality Fixed-Income Securities

TMHCC maintains high-quality, fixed-income securities with an 'AA–' average credit rating and a modest 2% allocation to below-investment-grade bonds. The duration of its fixed-income portfolio is 4.2 years. Fitch believes that TMHCC's liquidity remains adequate to pay claims.

Delphi Synergy and Limited Risk Assets

TMHD purchased Delphi Financial Group, Inc. in 2012 for approximately $2.7 billion. Delphi has unique investment management expertise, particularly in longer duration assets. Delphi's investment management organization oversees a portion of TMHCC's risk asset portfolios. TMHCC's investment strategy of allocating approximately 15% of assets into risk assets is unlikely to change from this shift in management, but the composition of these assets will differ over time.

Reserve Adequacy

($ Mil.)	2014	2015	2016	2017	2018
Loss and LAE Reserves	2,658	2,524	2,566	2,855	2,867
PAY Reserve Development	(56)	(35)	(15)	(37)	(8)
PAY Reserve Development/NPE (x)	(2.4)	(1.3)	(0.5)	(1.2)	(0.2)
PAY Reserve Development/BOY Common Equity (x)	(1.5)	(0.9)	(0.4)	(0.9)	(0.2)
Net Reserves/Common Equity	0.7	0.6	0.6	0.7	0.6

Fitch's Expectation

Fitch expects TMHCC's reserving philosophy to remain conservative. Calendar-year reserve development is likely to continue to trend favorably, with all development at relatively low levels compared with total reserves or capital.

LAE – Loss adjustment expense. PAY – Prior accident year. NPE – Net premiums earned. BOY – Beginning of year. Note: GAAP accounting principles.
Source: HCC Insurance Holdings, Inc. SEC filings.

Reserve Position Is Strong

TMHCC's reserve adequacy is strong and supportive of the current rating category. Overall reserve adequacy has a moderate influence in determining the company's ratings.

Reserves Develop Favorably in 2018

TMHCC demonstrates conservatism when estimating reserves and continues to take prompt and sufficient measures when claims diverge from initial estimates. In 2018, the company reported $8 million of net favorable reserve development. Favorably, the company also has low reserve leverage, which leads to limited capital exposure to any development. In the past 10 calendar years, reserves developed favorably nine times, with the exception of 2011, which had modest adverse development.

Modest Reserve Volatility

TMHCC historically reports modest reserve volatility, as longer tail professional liability and casualty lines are offset by shorter tail accident and health and surety lines. The company's weighted average duration of all claims was approximately 2.0 years in 2018 and has approximated this level for several years.

TMHCC consistently reports consolidated net reserves above its actuarial point estimate, but within the actuarial range.

Reinsurance, Risk Mitigation and Catastrophe Risk

	2014	2015	2016	2017	2018
Reinsurance Recoverables (RR, $ Mil.)	1,169	1,149	1,133	1,341	1,485
RR/Shareholders' Equity (%)	30	29	27	32	34
Retention Ratio (%)	79	79	82	80	78

Note: GAAP
Source: HCC Insurance Holdings, Inc. filings.

Fitch's Expectation

Fitch expects no major changes to TMHCC's reinsurance and risk mitigation over the ratings horizon.

Reasonable Reinsurance Protection Limits Large Losses

Fitch views TMHCC's reinsurance, risk mitigation and catastrophe risk to be very strong and supportive of the current rating category. Overall, this category has a lower influence in determining the company's ratings.

Adequate Reinsurance Utilization

TMHCC continues to purchase significant reinsurance to protect against catastrophe losses. The company also uses a fair amount of proportional reinsurance to more effectively manage risk in new lines of business.

Effective Risk Management Practices

Fitch views TMHCC's risk management process as effective and notes the company has a history of favorable long-term underwriting performance. The company also built an economic capital model, which allows it to better assess risks associated with capital management decisions.

Appendix A: Industry Profile and Operating Environment

This section discusses the U.S. non-life insurance sector. Most insurers in this sector have IFS ratings in the ‘AA’ and ‘A’ categories. The industry assessment considers the following perspectives.

Regulatory Oversight

U.S. regulatory oversight is very developed and transparent with effective enforcement. Insurance regulation is focused at the state level with activities coordinated through the National Association of Insurance Commissioners. More recently, the Federal Insurance Office was formed, in part to foster relations with international bodies in considering regulatory management equivalency across nations. U.S insurance regulations include robust financial reporting and capital requirements for insurers. Effectiveness in meeting dual objectives of protecting policyholders and fostering insurance company solvency is demonstrated by limited insurer market conduct actions, and historically few regulatory seizures, insolvencies or liquidations.

Technical Sophistication of Insurance Market; Diversity and Breadth

The U.S. insurance market is very technically sophisticated with diverse and very deep product offerings. The size and complexity of the U.S. economy has promoted demand for coverage. Many global risk management and insurance products have U.S. origins. Policyholders’ broad access to diverse insurance products and expertise provided by a robust agent and broker distribution system are factors leading to very high insurance penetration rates in the U.S.

Competitive Profile

The U.S. insurance market is highly competitive with market share dispersed among a large number of independent entities in the overall industry and nearly all significant product segments, which supports widespread choice and availability of coverage for policyholders. Less concentrated markets and relative ease in entering insurance markets also promotes price competition and cyclical underwriting performance.

Financial Markets Development

The U.S. has the largest and most developed financial markets in the world. The markets are very deep, robust and highly liquid, which provides insurers the ability to maintain diversified asset portfolios, manage interest rate and credit risk exposures, and invest new cash flows with favorable trade execution. U.S. financial markets also provide insurers with a variety of ways to access debt and equity capital, as well as strong bank-lending capacity, though opportunities may vary depending on individual insurer size, ownership structure and other factors.

Country Risk

Insurers’ ratings are unconstrained by sovereign risk issues as Fitch maintains a ‘AAA’ country rating with a Stable Outlook on the U.S. The rating is supported by economic size, high per-capita income, strong institutions, dynamic business environment, and the world’s pre-eminent reserve currency. This stable environment is beneficial for U.S. insurers. Longer term concerns regarding the U.S. sovereign rating are tied to government spending and financing activity, particularly growth in government deficits and the ability to meet long-term obligations, such as retirement and healthcare entitlements for an aging population.

Appendix B: Peer Analysis

TMHCC Compares Favorably with Peers

Fitch views TMHCC's closest peers as specialty writers, such as American Financial Group, Inc.; Markel Corporation; RLI Corporation (RLI); and W. R. Berkley Corporation. Additionally, TMHCC faces competition from Lloyd's of London, as well as large multi-line insurers, such as AIG; XL Capital Ltd.; Chubb Limited; and Travelers Property Casualty Corp. In its Accident & Health segment, TMHCC also faces competition from UnitedHealth Group, Inc. and Symetra Financial Corp. Fitch views TMHCC's competitive positioning in specialty markets as strong.

As demonstrated in the table below, overall performance for the peer group was solid over the past five years, with average combined ratios well below 100% and double-digit ROEs. TMHCC's underwriting performance over the past five years was the top performer in this peer group. The volatility of TMHCC's results remains moderate relative to peers. When measured by ROE, TMHCC's operating performance is in line with peers.

Peer Comparison

		YE 2018		Five-Year Average (%)			
	IFS Rating	Equity ($ Mil.)	NPW/ Equity (x)	CR	Standard Deviation of CR	CAGR NPW	ROE
HCC Insurance Holdings, Inc.	AA-	4,411	0.8	86.9	3	9	10
American Financial Group, Inc.	NR	4,972	1.0	94.4	0	8	10
Markel Corporation	A+	9,100	0.5	95.7	6	8	4
RLI Corporation	NR	807	1.0	89.9	6	4	13
W. R. Berkley Corporation	A+	5,480	1.2	94.8	1	3	12

IFS – Insurer Financial Strength. NPW – Net premiums written. CR – P/C combined ratio. NR – Not rated. Note: U.S. GAAP. All five-year periods are through 2018.
Source: Fitch Ratings, S&P Global Market Intelligence.

Appendix C: Other Ratings Considerations

Below is a summary of additional ratings considerations that are part of Fitch's ratings criteria.

Complete Ratings List for Core Subsidiaries

Houston Casualty Co.	
Avemco Insurance Co.	
U.S. Specialty Insurance Co.	
American Contractors Indemnity Co.	
United States Surety Co.	
HCC Life Insurance Co.	
Insurer Financial Strength	AA–

Group IFS Rating Approach

Fitch considers TMHCC's insurance subsidiaries (listed in the table to the left) as Core operations. HCC Life Insurance Co. is owned by Houston Casualty Co. and writes predominately medical stop-loss business. These entities share common management, resources and branding. Only normal regulatory barriers exist to dividend movement between entities and the parent.

Notching

For notching purposes, the regulatory environment of the U.S. is assessed by Fitch as being Effective and classified as following a Ring-Fencing approach.

Notching Summary

IFS Ratings
A baseline recovery assumption of Good applies to the IFS rating, and standard notching was used from the IFS "anchor" rating to the implied operating company IDR.
Holding Company IDR
Standard notching was applied between the implied operating company and holding company IDRs, with no adjustments made for unusual leverage, coverage or diversification of cash flow.

IFS – Insurer Financial Strength. IDR – Issuer Default Rating.

Hybrids—Equity/Debt Treatment

No hybrid debt exists at TMHCC currently.

Corporate Governance and Management

Corporate governance and management are adequate and neutral to the rating.

Transfer and Convertibility Risk (Country Ceiling)

None.

Criteria Variations

None.

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.