



084808 - Allied World Assurance Company, Ltd

Report Revision Date: 12/20/2016

Rating and Commentary ¹	Financial ²	General Information ³
Best's Credit Rating: 12/20/2016 Rating Rationale: 12/20/2016 Report Commentary: 12/20/2016	Time Period: Annual - 2016 Last Updated: 08/15/2017 Status: Quality Cross Checked	Corporate Structure: N/A States Licensed: N/A Officers and Directors: 07/12/2016
 Best's Credit Rating Methodology	Disclaimer	 Best's Rating Guide

Additional Online Resources

[Related News](#)

[Rating Activity and Announcements](#)

[Company Overview](#)

[Archived AMB Credit Reports](#)

[Corporate Changes & Retirements](#)

[AMB Country Risk Reports - Bermuda](#)

¹ The **Rating and Commentary** dates outline the most recent updates to the company's Best's Credit Rating, Rating Rationale, and Report Commentary for key rating and business changes. Report Commentary may include significant changes to the Business Profile, Risk Management, Operating Performance, Balance Sheet Strength, or Reinsurance sections of the report.

² The **Financial** dates reflect the current status of the financial tables and charts found within the AMB Credit Report, including whether the data was loaded "As Received" or had been run through A.M. Best "Quality Cross Checks".

³ The **General Information** dates cover key changes made to Corporate Structure, States Licensed, or Officers and Directors.

Operating Company Non-Life

Ultimate Parent: [Fairfax Financial Holdings Limited](#)

Allied World Assurance Company, Ltd

27 Richmond Road, Pembroke HM 08, Bermuda

Tel.: 441-278-5400

Web: www.awac.com

Fax: 441-296-3428

AMB #: 084808

Ultimate Parent #: [058364](#)

NAIC #: N/A

AIIN#: AA-3194128

Best's Credit Ratings

Best's Financial Strength Rating: A u

Implication: Negative

Best's Issuer Credit Rating: a+ u

Implication: Negative

Rating Effective Date: 12/20/2016

Financial Size Category: XV

Report Revision Date: 12/20/2016

Rating Rationale

Under Review Rationale: The under review status follows the announcement that Fairfax Financial Holdings Limited (Fairfax) and Allied World Assurance Company Holdings, AG have entered into a merger agreement pursuant to which Fairfax will acquire all of the outstanding registered ordinary shares of Allied World Assurance Company Holdings, AG (NYSE:AWH). The negative implications of the under review status reflects the execution risks associated with the transaction and the differential in the ratings of Fairfax and Allied World. Under the terms of the agreement Allied World shareholders would receive a combination of Fairfax subordinate voting shares and cash equal to \$54.00 per Allied World Share, for a total equity value of \$4.9 billion. The transaction has been unanimously approved by the Boards of Directors of both companies. A. M. Best will continue to monitor the progress and ongoing performance of both Fairfax and Allied World and will evaluate developments and implications for impact on Credit Ratings.

Rating Rationale: The ratings reflect Allied World's diversified business mix that emphasizes primary/casualty lines, excellent risk-adjusted capitalization, experienced management team and comprehensive enterprise risk management framework. The ratings also reflect the company's strong operating performance over the recent five-year period, proven risk management culture and successful track record of expansion in terms of geography, products and distribution. Allied World is well positioned to execute its business plans.

Partially offsetting these positive rating factors is Allied World's primary/casualty orientation, as pricing for this segment of business is cyclical and currently very competitive. The longer-tail nature of this business lends to greater uncertainty as regards reserve adequacy. Nonetheless, Allied World has chosen a targeted business strategy, while taking steps to refine its cycle management capability. Allied World's focus on casualty business also has helped to limit its exposure to the global catastrophes that have taken place over the past few years and somewhat insulates the company from convergence capital that has mainly been focused on property catastrophe business. Furthermore, Allied World appears to have a prudent reserving philosophy, maintaining a significant cushion of incurred but not reported reserves. This conservative reserving posture has enabled the company to consistently recognize net overall favorable loss reserve development since its inception in 2001 and has contributed to its strong operating returns through the current soft phase of the casualty market. This benefit has been tapering for Allied World, and adverse loss reserve development on specific classes have impacted results in some of the recent quarters. That being said, in the aggregate, A.M. Best does not currently have significant concerns regarding Allied World's reserves, but it is an area that A.M. Best will continue to closely monitor.

Rating factors that could lead to rating upgrades would be the continuation of long-term, consistently strong operating profitability and maintaining excellent risk-adjusted capital levels commensurate with its ratings.

Rating Rationale (Continued...)

Rating factors that could lead to a negative outlook or a rating downgrade include unfavorable operating profitability trends, outsized insurance or investment losses and a significant decline in risk-adjusted capital that would not be supportive of the current rating levels.

Five Year Rating History

Date	BEST'S	
	FSR	ICR
12/20/2016	A u	a+ u
02/11/2016	A	a+
12/16/2014	A	a+
11/13/2013	A	a+
11/15/2012	A	a

Rating Unit Members

Allied World Assurance Company, Ltd (AMB# 084808)

AMB#	Company	BEST'S	
		FSR	ICR
083090	Allied World Asr (Europe)DAC	A u	a+ u
012525	Allied World Asr Co (US) Inc	A u	a+ u
013865	Allied World Insurance Co	A u	a+ u
012526	Allied World National Assur Co	A u	a+ u
012699	Allied World Specialty Ins Co	A u	a+ u
011719	Allied World Surplus Lines Ins	A u	a+ u
011219	Vantapro Specialty Ins Co	A u	a+ u

Business Profile

Allied World Assurance Company, Ltd (Allied World), has established itself as a specialty insurance and reinsurance company that underwrites a diversified portfolio of property and casualty insurance and reinsurance lines of business. The company writes direct property and casualty insurance as well as reinsurance through operations in Bermuda, Canada, Europe, Hong Kong, Lloyd's, Singapore and the United States. The company's ultimate parent, Allied World Assurance Company Holdings, AG is domiciled in Switzerland.

Management monitors the performance of its direct underwriting operations based on the geographic location of the company's offices, the markets and customers served and the type of accounts written. The company's three operating segments are North American Insurance, Global Markets Insurance and Reinsurance.

The North American Insurance segment includes the company's direct specialty insurance operations in the United States, Bermuda and Canada. The Bermuda operations underwrite primarily larger, Fortune 1000 casualty and property risks for accounts domiciled in North America, while the U.S. and Canada operations generally write small- and middle-market, non-Fortune 1000 accounts domiciled in North America, including public entities, private companies and non-profit organizations. This segment has established offices in Atlanta, Bermuda, Boston, Chicago, Costa Mesa (CA), Dallas, Farmington (CT), Los Angeles, Miami, New York City, Philadelphia, San Francisco and Toronto.

The Global Markets Insurance segment includes the company's direct insurance business outside of North America operating primarily out of Europe and Asia with offices also in Miami to underwrites Latin American risks and in Australia. The European offices focus on mid-sized to large European and multi-national companies domiciled outside of North America and continue diversifying into products for small and middle-market accounts. This segment also underwrites a variety of professional liability, general casualty and healthcare liability products from its offices in Asia. The company's Asian business will increase with the company's April 2015 acquisition of RSA's Hong Kong and Singapore operations. In June 2010, the company formed Syndicate 2232 at Lloyd's of London. Effective April 1, 2014, the syndicate is managed by Allied World Managing Agency Limited which is authorized by the Prudential Regulation Authority in the United Kingdom. The syndicate offers select product lines, which include international property, general casualty and professional liability lines targeted at key territories such as countries in Latin America and the Asia-Pacific region.

The Reinsurance segment includes the company's operations in the United States, Bermuda, Europe and Singapore. This segment currently writes reinsurance on both a treaty and a facultative basis, targeting several niche reinsurance markets, including property coverages, general casualty, professional liability and specialty lines. The company's U.S. operations operate out of New York City and focus on general casualty, professional liability, property coverages and specialty lines including marine, aerospace and crop. The company's Bermuda operation focuses on property catastrophe, property treaty and specialty casualty coverages. During 2008, the company opened an office in Zug, Switzerland, that offers property, general casualty and professional liability products throughout Europe. Syndicate 2232 also offers international treaty reinsurance. During 2009, the company expanded its reinsurance operations in Asia with its Singapore office which serves as the company's hub for all classes of treaty reinsurance for the region. In 2012, the company opened a Miami office and received approval to act as a Lloyd's coverholder to underwrite treaty business in Latin America and the Caribbean.

Responsibility and accountability for the results of underwriting operations are assigned by major line of business within each of the operating segments.

The company markets its insurance and reinsurance products worldwide through selected third-party intermediaries. Direct insurance policies are written through various intermediaries, including excess and surplus lines wholesalers and regional and national retail brokerage firms. The distribution network for healthcare and professional liability products grew significantly with the acquisition of Darwin in 2008. Reinsurance is mostly placed through a small group of globally known reinsurance brokers although the company continues to build relationships with smaller distribution partners.

Risk Management

Allied World is viewed as a relatively conservative organization and a comprehensive risk management framework is in place. Allied World's enterprise risk management ("ERM") consists of numerous formalized processes and controls that have been designed by senior management, with oversight by the Board of Directors, including through its Enterprise Risk Committee, and implemented by employees across the organization. The economic capital model is a key element to the company's risk management. The company's ERM supports the firm-wide decision making process by aiming to provide reliable and timely risk information.

The risk governance structure includes committees comprised of senior underwriting, actuarial, finance, legal, investment and operations staff that identify, monitor and help manage each of these risks. The management-based Risk Management Committee, chaired by the Chief Risk Officer, focuses primarily on identifying correlations among the primary categories of risk, developing metrics to assess the overall risk position, performing an annual risk assessment and reviewing continually factors that may impact organizational risk. This risk governance structure is complemented by the company's internal audit department.

Regulatory and Accounting Environment: Insurance companies in Bermuda are regulated by the Insurance Division of the Bermuda Monetary Authority. In Bermuda, there are no taxes on profits, income, dividends or capital gains. There is only a licensing fee which is dependent upon the level of authorized capital. Exempted companies are able to enter an agreement with the government whereby any such taxes imposed in the future would not be applicable until March 31, 2035. Allied World has entered into such an agreement with the Bermudian government.

The Insurance Act provides that the statutory assets of an insurer must exceed its statutory liabilities by an amount greater than the prescribed minimum solvency margin, which for a Class 4 insurer such as Allied World is the greatest of \$100 million, 50% of net premiums written or 15% of net losses and loss expense reserves.

Operating Performance

Operating Results: Overall financial performance has been consistently strong since the company's inception in 2001. The company has generated industry leading operating returns over the recent five-year period while operating leverage measures have generally been conservative. Underwriting and investment results have been strong despite the competitive landscape, financial turbulence and the catastrophe activity in recent years. Although, 2015 results underperformed historical results, in part due to investment losses and a weaker, but still profitable, combined ratio. Catastrophe losses have been in line with the company's risk appetite and reflect the company's casualty orientation.

Overall, A.M. Best continues to be encouraged by the company's operating trends, market acceptance and successful recruitment. In recent years, Allied World has expanded the breadth of its operations while delivering strong operating performance.

Underwriting Results

Underwriting Results: Performance in recent years has been strong, attributed to the company's catastrophe losses being at the low end of its peer group as well as strong underwriting results that have been aided by significant favorable loss reserve development. Over the recent five-year period the company's reported combined ratio has been strong relative to its peer group. Going forward though, A.M. Best anticipates that the company will not experience the same level of favorable loss reserve development. As the casualty market continues to soften and reserve releases begin to diminish, the company's operating results could be dampened. In 2015, Allied World strengthened reserves related to prior accident years related to its healthcare business. This is an area that A.M. Best will continue to monitor closely.

Balance Sheet Strength

Capitalization

Capitalization: Based on Best's Capital Adequacy Ratio (BCAR) analysis, Allied World maintains excellent capitalization for its current rating level.

In May 2010, the company announced that its board of directors had authorized the company to repurchase up to \$500 million in the company's common shares through a share repurchase program. This repurchase program was fully exhausted by 2012. In May 2012, another two-year \$500 million share repurchase program was implemented. This program was superseded on May 1, 2014 by a new two-year \$500 million share repurchase program.

In 2010, the company repurchased \$505 million of shares and warrants from founders, including affiliates of The Goldman Sachs Group, Inc. and the Chubb Corporation, which were founding shareholders of Allied World. All founding shareholders have now been bought out. In 2007, the company purchased \$563.4 million of common shares from American International Group, Inc., also one of the company's founding shareholders.

Liquidity

Liquidity: Allied World has had solid operating cash flows since inception, due to both its casualty orientation and its strong underwriting performance. The company maintains a diversified investment strategy designed to emphasize the preservation of capital, provide adequate liquidity for the prompt payment of claims, as well as generate returns for shareholders. The investment portfolio consists primarily of investment-grade, fixed-maturity securities of short-to medium-term duration. The average duration of the portfolio is approximately 2 years, which is relatively short when compared with the company's casualty insurance focus. This is due to the company's defensive posture regarding a potential rise in interest rates. With a modest commitment for debt service at the holding company level, the company retains adequate levels of cash to meet forecast requirements. In addition, if need be, the vast majority of Allied World's investment portfolio could be liquidated rather quickly.

Allied World has a modest allocation in its investment portfolio to hedge funds and private equity. The funds' objectives are generally to seek attractive long-term returns with lower volatility by investing in a range of diversified investment strategies. Allied World's investment strategy allows the use of derivatives to manage the duration and foreign currency exposures. High standards are imposed for the credit quality of counterparties in all derivative transactions including carrying investment grade ratings and maintaining a recognized standing in the financial markets. Investment advisory and management services are provided to the company through Investment Management Agreements with various investment managers.

Balance Sheet

Summarized Accounts as of December 31, 2016

Data reflected within all tables of this report has been compiled from the consolidated financial statements of this company (Source: Company Financial Statement). An independent audit of the company's affairs through December 31, 2016, was conducted by Deloitte & Touche LLP.

Assets

	12/31/2016	12/31/2016	12/31/2015
	USD(000)	% of total	USD(000)
Cash and equivalents	702,100	5.7	552,180
Long term fixed maturity investments	6,303,604	50.8	6,815,664
Equity investments	219,231	1.8	403,022
Other investments	958,310	7.7	903,292
Invested assets	7,481,145	60.3	8,121,978
Receivables	915,137	7.4	889,986
Reinsurance recoverable	1,550,459	12.5	1,428,811
Deferred policy acquisition cost	109,489	0.9	145,232
Goodwill & other intangibles	494,438	4.0	504,750
Other assets	1,159,381	9.3	1,213,480
Total assets	12,412,149	100.0	12,856,417

Balance Sheet (Continued...)

Liabilities & Surplus

	12/31/2016	12/31/2016	12/31/2015
	USD(000)	% of total	USD(000)
Property / Casualty reserves	6,255,627	50.4	6,184,156
Unearned premium reserves	1,549,440	12.5	1,530,057
Total policy reserves	7,805,067	62.9	7,714,213
Other liabilities	572,022	4.6	708,415
Total liabilities	8,377,089	67.5	8,422,628
Equity - common stock	1,000	...	1,000
Paid-in capital	2,292,137	18.5	2,528,987
Accumulated other comprehensive income	-11,557	-0.1	-9,297
Retained earnings	1,753,480	14.1	1,913,099
Total equity	4,035,060	32.5	4,433,789
Total liabilities & equity	12,412,149	100.0	12,856,417

Summary Of Operations

Statement of Income

	12/31/2016	12/31/2015
	USD(000)	USD(000)
Direct premiums written	2,190,926	2,121,747
Reins assumed	623,026	675,299
Gross premiums written	2,813,952	2,797,046
Reins ceded	756,574	597,220
Net premiums written	2,057,378	2,199,826
Change in unearned premiums	-69,156	-101,906
Net premiums earned	2,126,534	2,301,732
Net investment income	201,062	175,293
Net realized gains/(losses)	-19,571	-121,328
Other revenue	14,385	5,991
Non-operating revenue	4,501	...
Total revenue	2,326,911	2,361,688
Benefits & reserves	1,339,812	1,459,402
Operating expenses	679,637	702,224
Non-operating expenses	...	4,774
Total benefits & expenses	2,019,449	2,166,400
Earnings before interest & taxes (EBIT)	307,462	195,288
Pre-tax income/(loss) from continuing operations	307,462	195,288
Total taxes	-11,919	2,361
Net income/(loss) before minority interest	319,381	192,927
Net income/(loss) from continuing operations	319,381	192,927
Net income/(loss)	319,381	192,927

Summary Of Operations (Continued...)

Statement of Changes In Equity

	12/31/2016	12/31/2015
	USD(000)	USD(000)
Common shares, beginning balance	1,000	1,000
Common shares, ending balance	1,000	1,000
Paid-in capital - Beg bal	2,528,987	2,021,848
Paid-in capital - other	-236,850	507,139
Paid-in capital - End bal	2,292,137	2,528,987
AOCI - beginning balance	-9,297	...
AOCI - foreign currency adjustments	-2,260	-9,297
AOCI - ending balance	-11,557	-9,297
Retained earnings, beginning balance	1,913,099	2,196,172
Retained earnings, net income	319,381	192,927
Retained earnings, common dividends	479,000	476,000
Retained earnings, ending balance	1,753,480	1,913,099
Total shareholder equity	4,035,060	4,433,789

Statement of Cash Flows

	12/31/2016	12/31/2015
	USD(000)	USD(000)
Net cash provided/(used) in operating activities	409,858	529,456
Net cash provided/(used) in investment activities	561,341	-484,270
Net cash provided/(used) in financing activities	-834,375	64,300
Effect of exchange rates on cash	-400	-4,417
Total increase (decrease) in cash	136,424	105,069
Cash, beginning balance	499,633	394,564
Cash, ending balance	636,057	499,633

History

Date Incorporated: 11/13/2001

Date Commenced: N/A

Domicile: Bermuda

Allied World was incorporated in Bermuda on November 13, 2001, and is a wholly owned subsidiary of Allied World Assurance Company Holdings, AG, which is domiciled in Switzerland. Allied World began operations on November 21, 2001, as a registered Class 4 Bermuda insurance and reinsurance company and is subject to regulation and supervision in Bermuda under the Insurance Act of 1978 of Bermuda and its related regulations.

Officers And Directors

Officers

Chairman, President and CEO: Scott A. Carmilani

CEO: John R. Bender (Global Reinsurance)

President: Richard Jodoin (U.S. Operations)

Chief Underwriting Officer: Michael Hoffmann

Chief Risk Officer: Barry Zurbuchen

EVP: G. William Davis, Jr.

EVP: John L. Murphy

SVP and Chief Marketing Officer: Eugene R. Raitt

SVP: Michael McCrimmon (Property Department)

SVP: Susan Morgan (Ceded Reinsurance)

Directors

Scott A. Carmilani (Chairman, Chief Executive Officer and Michael Morrison (Vice Chairman) President)

Reinsurance

Allied World provides reinsurance agreements to its operating affiliates. Under these agreements, the group's affiliates generally cede between 70% and 85% of their business to Allied World on a quota share basis. The agreements apply to all lines of business written by the affiliates and remain in force until terminated with proper notification.

Balance Sheet Items

	USD (000) 2016	USD (000) 2015	USD (000) 2014	USD (000) 2013	USD (000) 2012
Invested assets	7,481,145	8,121,978	7,529,893	7,393,349	7,677,435
Total assets	12,412,149	12,856,417	11,894,141	11,541,688	11,685,623
Total liabilities	8,377,089	8,422,628	7,675,121	7,512,405	7,720,096
Total equity	4,035,060	4,433,789	4,219,020	4,029,283	3,965,527
Total capital	4,035,060	4,433,789	4,219,020	4,029,283	3,965,527

Balance Sheet Items (Continued...)

Income Statement Items

	USD (000) 2016	USD (000) 2015	USD (000) 2014	USD (000) 2013	USD (000) 2012
Gross premiums written	2,813,952	2,797,046	2,783,475	2,608,564	2,262,612
Net premiums written	2,057,378	2,199,826	2,208,756	2,024,474	1,782,874
Net investment income	201,062	175,293	163,200	141,022	165,373
Net realized gains/(losses)	-19,571	-121,328	88,389	61,986	304,505
Net income/(loss)	319,381	192,927	555,637	513,141	574,359

Liquidity Ratios (%)

	2016	2015	2014	2013	2012
Total investments to total reserves	104.9	112.4	111.3	113.8	124.9
Liquid assets to total liabilities	86.3	92.3	92.8	94.6	99.9
Total investments to total liabilities	97.7	103.0	104.2	105.4	109.0
Bonds to total reserves	80.8	88.4	80.9	84.4	95.8

Profitability Ratios (%)

	2016	2015	2014	2013	2012
Loss ratio	63.0	63.4	54.4	55.2	65.4
Expense ratio	31.6	30.2	29.7	28.4	27.4
Combined ratio	94.6	93.6	84.1	83.6	92.9
Investment income ratio	9.5	7.6	7.9	7.3	9.7
Return on assets	2.5	1.6	4.7	4.4	5.1
Return on revenues	15.0	8.4	26.7	26.6	33.7
Return on equity	7.5	4.5	13.5	12.8	14.8

Leverage & Debt Ratios (%)

	2016	2015	2014	2013	2012
Net premiums written to equity	51.0	49.6	52.4	50.2	45.0
Cash and equivalents to total assets	5.7	4.3	3.9	4.6	6.3

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.

In arriving at a rating decision, A.M. Best relies on third-party audited financial data and/or other information provided to it. While this information is believed to be reliable, A.M. Best does not independently verify the accuracy or reliability of the information. Any and all ratings, opinions and information contained herein are provided "as is," without any express or implied warranty.

Visit <http://www.ambest.com/ratings/notice.asp> for additional information or <http://www.ambest.com/terms.html> for details on the Terms of Use.

Copyright © 2017 A.M. Best Company, Inc. and/or its affiliates. All rights reserved.

No part of this report may be reproduced, distributed, or stored in a database or retrieval system, or transmitted in any form or by any means without the prior written permission of the A.M. Best Company. While the data in this report was obtained from sources believed to be reliable, its accuracy is not guaranteed.