Agenda

• Federal
  ▪ TCJA – A Recap
  ▪ Impact of CARES Act
  ▪ Recent Developments

• State & Local
  ▪ Remote Workforce
  ▪ Policyholder Relief
  ▪ Oregon CAT
  ▪ Tax Developments
  ▪ Assessment Developments
TCJA – A Recap

- Reduction in Federal Corporate Income Tax Rate to 21%
- Repeal of Alternative Minimum Tax (AMT)
- AMT Credit Utilization and Refund (CARES Act Change)
- Net Operating Losses (NOLs) (CARES Act Change)
  - Unlimited Carryforward
  - No Carrybacks
  - Limited to 80% of Regular Taxable Income
  - *P&C Company NOL Rules Unchanged*
  - *Capital Loss Rules Unchanged*
TCJA – A Recap

- Reduction in Dividends Received Deduction
- 100% Bonus Depreciation & Expanded §179 Expensing (CARES Act Change)
- Limitation on Deductibility of Business Interest (CARES Act Change)
- Income Inclusion Rule
- Meals & Entertainment Limitations
- Qualified Transportation Fringe Limitations
TCJA – A Recap

• Loss Reserves
  ▪ Changes in Interest Rate & Payment Pattern – Generally Reduced Tax Loss Reserves
  ▪ No Company Election
  ▪ Repeal of §847

• Proration Percentage Increased from 15% to 25%
  ▪ Keeps the After-Tax Yield of Tax-Exempt Bonds Constant at 5.25%
  ▪ Narrows the Spread Between Taxable & Tax-Exempt Bonds

• Retention of NOL Rules (2 Back/20 Forward) (CARES Act Change)
TCJA – A Recap

• **Rev. Proc. 2019-06**
  - Provided proposed tax discount factors for the 2017 reserve reset & 2018 reserve calculations
  - Based upon 3.12% annual rate
  - Same factors apply to losses & salvage
  - Reserve reset at 12/31/17 spread over 8 years

• **Rev. Proc. 2019-31**
  - Revised factors issued
  - Based upon a 2.94% rate
  - Tended to increase reserves as compared to proposed factors

• **Rev. Proc. 2019-30**
  - Provides “simplified” procedure for loss reserve & salvage accounting method changes
  - Companies using “revised” factors for 2017 reset & 2018 reserves & salvage
    - Spread reserve adjustment over 8 years
    - Spread salvage adjustment over 4 years if taxable income or 1 year if tax deduction
  - Companies using “proposed” factors for 2017 reset & 2018 reserves & salvage
    - “Remainder” adjustment spread over 7 years
    - “Supplemental” adjustment over 1 or 7 years at taxpayer’s election
TCJA – A Recap

• §807(f) Changes Subject to §481 Rules
  ▪ 4 Year Spread for Reserve Decreases
  ▪ 1 Year Spread for Reserve Increases

• DAC Capitalization
  ▪ 2.09% for Annuities (formerly 1.75%)
  ▪ 2.45% for Group Life (formerly 2.05%)
  ▪ 9.2% for Other Contracts (formerly 7.7%)

• DAC Amortization
  ▪ Retains 60-Month Amortization
  ▪ Increases 120-Month Amortization Period to 180-Months
TCJA – A Recap

• Life Reserves Capped at Greater of Net Surrender Value or 92.81% of Tax Reserves (8 Year Phase-In)

• 70% Company Share/30% Policyholder Share (6.3% ETR on Tax Exempt Interest)

• Inclusion of Policyholder Surplus Account Balance in Income over 8 Years

• NOL/OLD Conformity (CARES Act Change)

• Elimination of Small Life Insurance Company Deduction (SLICD)
TCJA – A Recap

• **Rev. Proc. 2019-34**
  - Provides “simplified” accounting method change guidance for life reserves & deferred acquisition costs (DAC)
  - Life reserves under TCJA are greater of net surrender value or 92.81% of the tax reserve (tax reserve generally meaning CRVM or CARVM)
  - Reset for life reserves spread over 8 years
  - §807(c)(3) reserves – insurance & annuity reserves not involving life, accident, or health contingencies – spread over 4 years if taxable income or 1 year if tax deduction
  - DAC – cut-off method; thus, no adjustment to spread
CARES Act

- Paycheck Protection Program (§1102)
- Loan Forgiveness (§1106)
- Charitable Contributions (§2205)
- Employee Retention Credit (§2301)
- Delay of Payment of Employer Payroll Taxes (§2302)
- 5-Year NOL Carryback (§2303)
- AMT Credit Refund (§2305)
- Modifications of Limitation on Business Interest (§2306)
- Technical Amendments to Qualified Improvement Property (§2307)
Increase in Charitable Contribution Limitation (§2205)

- Charitable contribution limitation for corporations pursuant to IRC §170 is 10% of taxable income
- Companies can elect to increase limitation to 25% for 2020 contributions

Delay of Payment of Employer Payroll Taxes (§2302)

- Deferral of remaining 2020 payroll taxes (from date of enactment [March 27, 2020] through December 31, 2020)
- 50% of deferred amounts due December 31, 2021
- Remaining 50% due December 31, 2022
- Taxpayers who have had PPP loans forgiven are not eligible
- Once notice of loan forgiveness is received, deferral period terminates
Paycheck Protection Program (§1102)

- Loan to be forgiven should taxpayer meet specific qualifications
- IRS released guidance regarding deductibility of expenses paid using PPP Funds
  - Loan forgiveness income not taxable & expenses not deductible
  - Given reasonable expectations that loan will be forgiven, then expenses are not deductible in 2020 even if loan has not yet been forgiven
  - Still pending further guidance, especially for loans greater than $2 million
- Potential GAAP to STAT differences
• **5 Year NOL Carryback (§2303)**
  
  • C corporations & Life/Health/P&C insurers
  
  • Carryback of NOLs from 2018–2020 tax years to as early as 2013
  
  • 2017 & prior tax rates 34%/35%
  
  • Could create additional AMT which then can be refunded
## CARES Act

### C Corporation Net Operating Loss Table

<table>
<thead>
<tr>
<th>Year Generated</th>
<th>Carryback Period</th>
<th>Carryforward Period</th>
<th>Limitation in Year Utilized</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017 &amp; Prior</td>
<td>2 Years</td>
<td>20 Years</td>
<td>N/A</td>
</tr>
<tr>
<td>2018-2020</td>
<td>5 Years</td>
<td>Indefinite</td>
<td>N/A in 2020 &amp; Prior 80%</td>
</tr>
<tr>
<td>2021 &amp; Thereafter</td>
<td>N/A</td>
<td>Indefinite</td>
<td>80%</td>
</tr>
</tbody>
</table>

### Life Insurance Net Operating Loss Table (formerly Operating Loss Deduction)

<table>
<thead>
<tr>
<th>Year Generated</th>
<th>Carryback Period</th>
<th>Carryforward Period</th>
<th>Limitation in Year Utilized</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017 &amp; Prior</td>
<td>3 years</td>
<td>15 years</td>
<td>N/A</td>
</tr>
<tr>
<td>2018 -2020</td>
<td>5 years</td>
<td>Indefinite</td>
<td>N/A in 2020 &amp; Prior 80%</td>
</tr>
<tr>
<td>2021 &amp; Thereafter</td>
<td>N/A</td>
<td>Indefinite</td>
<td>80%</td>
</tr>
</tbody>
</table>
## CARES Act

### Property/Casualty Insurer Net Operating Loss Table

<table>
<thead>
<tr>
<th>Year Generated</th>
<th>Carryback Period</th>
<th>Carryforward Period</th>
<th>Limitation</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017 &amp; Prior</td>
<td>2 Years</td>
<td>20 Years</td>
<td>N/A</td>
</tr>
<tr>
<td>2018-2020</td>
<td>5 Years</td>
<td>20 Years</td>
<td>N/A</td>
</tr>
<tr>
<td>2021 &amp; Thereafter</td>
<td>2 Years</td>
<td>20 Years</td>
<td>N/A</td>
</tr>
</tbody>
</table>
CARES Act

- **Refundable AMT Credit (§2305)**
  - TCJA AMT Credit Refund Schedule
    - 2018: 50%
    - 2019: 25%
    - 2020: 12.5%
    - 2021: 12.5%
  - CARES Act
    - Election available to claim 100% of refundable credit in 2018 using Form 1139, or
    - Claim remaining refundable credit on 2019 tax return

- **Qualified Improvement Property (§2307)**
  - Technical correction effective January 1, 2018, as if it was part of the TCJA
  - Qualified Improvement Property (QIP) was not eligible for bonus depreciation
  - Now considered 15-year property & consequently, eligible for bonus depreciation
  - Presents a refund opportunity for 2018 tax returns
**Employee Retention Credit (§2301)**

- “Eligible Employers” eligible for a credit equal to 50% of the first $10,000 of “Qualified Wages”

- **Eligible Employer**
  - Fully or partially suspend operation during any calendar quarter in 2020 due to orders from an appropriate governmental authority limiting commerce, travel, or group due to COVID-19; or
  - Experience a significant decline in gross receipts during the calendar quarter

- **Qualified Wages**
  - More than 100 full-time employees in 2019, wages paid to an employee for time that the employee is not providing services due to an economic hardship, either
    - (1) a full or partial suspension of operations by order of a governmental authority due to COVID-19, or
    - (2) a significant decline in gross receipts
  - Average 100 or fewer full-time employees in 2019, wages paid to any employee during any period of economic hardship described in (1) or (2) above

- Eligible employer cannot be a PPP borrower
FAQ 30: An employer that operates an essential business is not considered to have a full or partial suspension of operations if the governmental order allows the employer’s operations to remain open. However, an employer that operates an essential business may be considered to have a partial suspension of operations if, under the facts & circumstances, more than a nominal portion of its business operations is suspended by a governmental order.

FAQ 34: If an employer’s workplace is closed by a governmental order for certain purposes, but the employer’s workplace may remain open for other purposes or the employer is able to continue certain operations remotely, the employer’s operations would be considered to be partially suspended. However, if all of an employer’s business operations may continue, even if subject to modification (for example, to satisfy distancing requirements), such a modification of operations is not considered to be a partial suspension of business operations due to a governmental order, unless the modification required by the governmental order has more than a nominal effect on the business operations under the facts & circumstances.
Recent Developments

• IRS issued final consolidated group net operating loss rules
  ▪ Layout how consolidating groups, including those with non-life insurance companies, should allocate their losses
  ▪ Confirming 1120-PC not subject to new 80% limitation
  ▪ Did not provide guidance for life/non-life loss limitations
  ▪ IRS provided guidance on proxy AMT in loss years after 2018
    • IRS confirm no AMT to be calculated to carryback to pre-2018 tax years
    • Likely to result in generation of AMT in pre-2018 tax years; however, remaining AMT credits to be fully refundable under CARES Act
  ▪ IRS released loss reserves discount factors in November
Will the 21% Federal Tax Rate Survive?
  - Biden’s tax plan includes 28%
  - No insurance specific provisions have been discussed

Tax planning will be applied in reverse of normal thinking: accelerate income & defer deductions

Potential planning strategies
  - Elect out of bonus depreciation
  - Wait to make capital purchases
  - Delay cost segregation studies
  - Look at bonus compensation programs

We have a couple weeks left in 2020 – If your company is looking at net operating loss for the year, look at carryback potential for a 34% or 35% tax offset
2020 tax provisions may reflect rate benefit associated with carrybacks to 2017 & prior years
If the tax rate changes, deferred tax assets & deferred tax liabilities will need to be re-measured
If tax planning for a rate change increases deferred tax assets, consider impact on admissibility
AMT credits were likely already included as an asset, either as an FIT receivable or Admitted DTA
Consider impact of change from unrealized gain to unrealized loss position
SALT Agenda

• Remote Workforce
• Policyholder Relief
• Oregon CAT
• Tax Developments
• Assessment Developments
Remote Workforce

A Trifecta of Problems

• Nexus

• Withholding Requirements

• Employee Income Tax Filings

Questions

• What jurisdiction gets to tax an employee temporarily telecommuting due to the pandemic?
  • State of New Hampshire v. Commonwealth of Massachusetts, filed in U.S. Supreme Court on October 19, 2020
  • Trouble locations: Massachusetts, New York, Ohio (+ cities), etc. ...

• If jurisdiction provides relief, when does it end?
Remote Workforce

Federal Legislative Responses

• **H 5674 / Mobile Workforce State Income Tax Simplification Act of 2020**
  - Would set a 30-day threshold before states could tax income earned by nonresidents

• **H 7968 / Multi-State Worker Tax Fairness Act of 2020**
  - Would limit state & local taxing authorities’ ability to tax nonresident individuals to compensation earned in periods where they are physically present in such jurisdiction
  - Would eliminate the “convenience of the employer” test
Remote Workforce

Federal Legislative Responses

• S 3995 / Remote and Mobile Worker Relief Act of 2020
  ▪ Would set a 30-day threshold before states could tax income earned by nonresidents
  ▪ Due to COVID-19, the threshold is increased to 90 days for calendar year 2020
  ▪ During the pandemic, remote employees’ income shall be deemed to have been earned at their primary work location, but allows employers to alternatively treat as earned in the remote location
  ▪ Eliminates corporate income tax nexus or sales sourcing due to remote employees
Policyholder Relief

NAIC Interpretation INT 20-08

- Provides Stat Accounting guidance for policyholder relief due to the COVID-19 pandemic
  - How to account for refunds not required under the policy terms
    - The prescribed method is a refund of premium & a direct reduction of DWP, but it also allows a limited-time exception to treat as an underwriting expense;
  - How to account for refunds required under the policy terms;
  - How to account for rate reductions on in-force & renewal business;
  - How to account for policyholder dividends; &
  - Where to disclose refunds, rate reductions, & policyholder dividends related to COVID-19 decreases in activity
- Issued 05/05/2020 & revised on 07/22/2020
Policyholder Relief

State Responses to NAIC Interpretation INT 20-08

• Generally, most states have not made official announcements regarding the premium tax impact from policyholder relief

• California DOI Bulletin 2020-3
  ▪ Commissioner’s Order requires insurers make a premium refund within 120 days for the months of March & April on private passenger automobile; commercial automobile; workers’ compensation; commercial multiple peril; commercial liability; medical malpractice; & any other line of risk coverage substantially overstated as a result of the pandemic
  ▪ Corrective action may be a credit, reduction, return of premium, or other premium adjustment; every impacted insurer has to report actions taken to the DOI within 60 days
  ▪ Issued 04/13/2020
Policyholder Relief

State Responses to NAIC Interpretation INT 20-08 [cont.]

• Connecticut DOI emails
  ▪ Policyholder relief due to COVID-19 classified as returned premium is subject to premium tax
  ▪ Issued 07/10/2020

• Kentucky DOI Guidance
  ▪ The DOI stated that a refund of local government premium taxes in relation to the return of premium as a result of altered driving patterns during the COVID-19 pandemic is unwarranted
  ▪ Issued 04/24/2020
The Oregon Commercial Activity Tax

- New tax as of 01/01/2020, per H 3427, Laws 2019
- Tax is $250 plus 0.57% of taxpayer's taxable business receipts over $1 million
- Tax is imposed on full unitary basis
- Registration is required once commercial activity exceeds $750,000
Oregon CAT

Oregon Admin Rules 150-317-xxxx

• DOR issued numerous temporary regulations pertaining to the new corporate activity tax & is now in the process of adopting these as final

• Significant regulations include
  ▪ -1000 / definitions
  ▪ -1010 / nexus
  ▪ -1020 / unitary groups
  ▪ -1200 / cost input or labor cost subtraction
  ▪ -1300 / estimated payments
  ▪ -1320 / estimated payments for unitary groups
  ▪ Draft -1060 / definition of commercial activity for insurance companies
Florida H 7097

- Reduces the surplus lines premium tax rate from 5.0% to 4.94%
- Passed, effective 07/01/2020

Maine DOR News Release

- The DOR released Forms INS-2, Estimated Monthly Payment & Form INS-5, Fire Investigation and Prevention Tax Annual Reconciliation/Return, & corresponding instructions for tax year 2019
- Per 25 MRS § 2399, this reflected the revisions to fire risk percentages by LOB
- Issued 01/01/2020
Tax Developments

Michigan Treasury Notice

• The Department of Treasury has determined the rate of gross premiums attributable to qualified health plans to be 0.8863% (previously 0.95%) for tax year 2020

• Issued 10/16/2020


• Established Article 7.020 imposing an additional premium tax of 3% on LOB 1 (fire) & LOB 2.1 (Allied Lines) written in Puerto Rico, due March 31; to fund fire salaries

• Passed, effective 12/26/2019, but contested by the Financial Oversight and Management Board
Utah H 348

- Clarifies that insurance premium taxes are in place of any other license fee or license assessment that might otherwise be levied against an insurance licensee
- The premium taxes or fees aren’t in place of the sales & use & excise taxes or fees a municipality or county imposes
- Passed, effective 05/12/2020

Wyoming S 71

- Exempts the portion of a life insurance policy’s annual premium exceeding $100,000 from retaliatory tax
- Revises the premium tax rate on life insurance to 0.75% on the first $100,000 of premium & 0.075% on the portion of the annual premium exceeding $100,000 (currently .75% on all amount of life premium)
- Passed, effective 01/01/2021
Tax Developments

Pass-Through Entity Tax

• **Maryland S 523**
  - Allows a pass-through entity to elect to be taxed at the entity level
  - Each member can claim a credit against the state income tax equal to the tax paid by the pass-through entity
  - Passed, effective for all taxable years beginning after 12/31/2019

• **New Jersey S 3246**
  - Allows a pass-through entity to elect to be taxed at the entity level
  - Each member can claim a credit against the state income tax equal to the tax paid by the pass-through entity
  - The credit is refundable for non-corporate members & carried forward 20 years for corporate members
  - Passed, effective 01/13/2020
Assessment Developments

Model Life & Health Guaranty Fund Conformity

• Updates life & health guaranty fund provisions to conform to NAIC model statutes, which generally
  ▪ Include HMOs as member insurers & permit them to recoup assessments via policyholder surcharges;
  ▪ Splits assessments pertaining to LTC insolvencies 50/50 between life/annuity & health insurers; &
  ▪ Eliminates caps on Class A assessments (*)

• Georgia * H 1050 / Passed, effective 06/30/2020
• Minnesota * S 4091 / Passed, effective 05/12/2020
• Mississippi * S 2227 / Passed, effective 07/01/2020
• Pennsylvania S 1195 / Passed, effective 11/03/2020
• South Carolina S 580 / Passed, effective 03/24/2020
Assessment Developments

Colorado S 215

• Establishes the Health Insurance Affordability Enterprise & imposes an assessment in 2021 of 1.15% of premium for nonprofits & 2.1% of premium for for-profit health insurers on the prior year premium

• Passed, effective 06/30/2020

Indiana H 1065

• Imposes a nonprofit agricultural organization health coverage tax equal to 1.3% of gross premiums collected from their members in the previous year

• Passed, effective 07/01/2020
Missouri S 551

- Creates the Missouri Automobile Insurance Plan to provide uninsured motorist coverage & authorizes a market share assessments on member insurers writing auto coverage in state to make up deficits of the Plan
  
- Passed, effective 07/14/2020

New Jersey A 4389 / S 2676

- Creates the "Health Insurance Affordability Fund" to increase affordability for individual health insurance in the state for low-income households
  
- The fund receives revenue from a 2.75% assessment on net written premiums earned in state on health benefits plans, due by May 1 each year
  
- Passed, effective 01/01/2021
Oregon Admin Rules 440-045-0020 & 440-045-0025

• Amended regulations concerning 2021 workers’ compensation premium assessment rates, which increase the assessment rate to 9.0% (from 8.4%) of the direct earned premium & the direct earned premium self-insured employers & self-insured employer groups would pay if they were insured employers & maintain additional assessments at current levels for calendar year 2021

• Effective 01/01/2021

Virginia H 1428 / S 732

• Creates the Virginia Health Benefit Exchange, funded by an assessment on health insurers, which is limited to 3.0% of total monthly premiums

• Passed, effective 07/01/2020
Assessment Developments

**Washington S 6049**

- Establishes a fraud assessment imposed on all licensed insurers to cover program costs involved by the DOI
- The assessment shall not exceed 0.01% of premium, subject to a minimum of $100
- The assessment shall be due each year by July 15th & can be recouped by policyholder surcharge or rates
- Passed, effective 07/01/2020
Questions?
for more information
Susan Kelley | skelley@BKD.com | 513.562.5510
Michael Palm | mpalm@BKD.com | 740.262.0816

bkd.com
Thank You!

for more information

Susan Kelley | skelley@BKD.com | 513.562.5510
Michael Palm | mpalm@BKD.com | 740.262.0816

bkd.com
Cybersecurity – What’s Up?

December 16, 2020

Cindy Boyle, CPA, CIA, CITP, CISA, CCSFP | Partner
National Practice Leader of BKDCyber
Microsoft Patch Tuesday, October 20, 2020 Edition
87 security problems, eleven given “critical” rating, Win 10, Server 2019
Backup & Patch!

RansomWare – October 18, 2020
Cyber criminals are posting Help Wanted for Pen testers; COVID-19 has opened up new markets for RansomWare

Two Russians Charged in $17M Cryptocurrency Phishing Spree – September 21, 2020
They stole the cryptocurrency using spoofed websites & phishing emails

FBI, CISA Echo Warnings on ‘Vishing’ Threat, August 16, 2020
Voice phishing to obtain VPN credentials due to COVID-19

CEO Scam
Usually results in a wire fraud
Notable Insurance Breaches

Anthem Health Care 2015
Notable as being the biggest data breach in history of HC. Hackers used spear-phishing to trick employees into revealing usernames & passwords & they stole 78.8M records; ordered to pay $40M in damages & $115M to victims for breach of privacy claims per Bank Info Security website

Pacific Specialty Insurance Company 2019
Victim of phishing attack that resulted in hackers gaining access to employee email accounts. Per Insurance Business Magazine they took name, SS#, government IDs, financial data, & health insurance information

Chubb Corporation 2020
Unauthorized access to data held by a third-party service provider. Believed that Chubb was hit with ransomware but no details available per techcrunch.com

Universal Health Services 2020
Per USA Today, a hack crippled with a ransomware attack that shut them down for days, causing them to go back to paper records
Average total cost of a data breach by country or region

Measured in US$ millions

- United States: $8.64M
- Middle East: $6.52M
- Canada: $4.50M
- Germany: $4.45M
- Japan: $4.19M
- France: $4.01M
- United Kingdom: $3.90M
- Global average: $3.86M
- Italy: $3.19M
- South Korea: $3.12M
- ASEAN: $2.71M
- Scandinavia: $2.31M
- Australia: $2.15M
- South Africa: $2.14M
- India: $2.00M
- Turkey: $1.77M
- Latin America: $1.68M
- Brazil: $1.12M

United States average cost $8.64M
Average total cost of a data breach by industry

Measured in US$ millions

Financial Services

$5.85M
### Breakdown of data breach root causes by industry

<table>
<thead>
<tr>
<th>Industry</th>
<th>Malicious Attack</th>
<th>System Glitch</th>
<th>Human Error</th>
</tr>
</thead>
<tbody>
<tr>
<td>Technology</td>
<td>59%</td>
<td>26%</td>
<td>17%</td>
</tr>
<tr>
<td>Transportation</td>
<td>58%</td>
<td>29%</td>
<td>13%</td>
</tr>
<tr>
<td>Retail</td>
<td>58%</td>
<td>25%</td>
<td>17%</td>
</tr>
<tr>
<td>Financial</td>
<td>56%</td>
<td>21%</td>
<td>23%</td>
</tr>
<tr>
<td>Media</td>
<td>55%</td>
<td>24%</td>
<td>21%</td>
</tr>
<tr>
<td>Energy</td>
<td>55%</td>
<td>23%</td>
<td>22%</td>
</tr>
<tr>
<td>Services</td>
<td>54%</td>
<td>26%</td>
<td>20%</td>
</tr>
<tr>
<td>Industrial</td>
<td>54%</td>
<td>23%</td>
<td>23%</td>
</tr>
<tr>
<td>Pharmaceuticals</td>
<td>53%</td>
<td>23%</td>
<td>24%</td>
</tr>
<tr>
<td>Hospitality</td>
<td>53%</td>
<td>27%</td>
<td>20%</td>
</tr>
<tr>
<td>Communication</td>
<td>51%</td>
<td>23%</td>
<td>26%</td>
</tr>
<tr>
<td>Healthcare</td>
<td>50%</td>
<td>23%</td>
<td>27%</td>
</tr>
<tr>
<td>Education</td>
<td>48%</td>
<td>26%</td>
<td>26%</td>
</tr>
<tr>
<td>Consumer</td>
<td>45%</td>
<td>27%</td>
<td>28%</td>
</tr>
<tr>
<td>Research</td>
<td>44%</td>
<td>33%</td>
<td>23%</td>
</tr>
<tr>
<td>Public</td>
<td>43%</td>
<td>29%</td>
<td>28%</td>
</tr>
<tr>
<td>Entertainment</td>
<td>43%</td>
<td>23%</td>
<td>34%</td>
</tr>
</tbody>
</table>

2020 Cost of a Data Breach Report – Ponemon Institute, IBM Security

- **Financial Services**
  - **Root Cause**
    - 56% Malicious Attack
    - 23% Human Error
    - 21% System Glitch
Consider Layered Security or Office 365

Email – goes to third party like Proofpoint
Then goes to company
Then goes to employee
Employee can access Proofpoint

Reduces chance of phishing emails entering organization
C-level executives are 12 times more likely to be the target of social engineering attacks.

85–90% of all breaches & incidents relate to human error. Most are the result of phishing campaigns!

Single Biggest Risk – Users
Importance of Awareness Training
Training & Awareness

• Cybersecurity is as much a mindset as it is technical
• Reduce access levels of staff to the minimum required to perform daily duties. Nothing more
• More frequent training now than ever before
• “Simplify” methods to notify staff of emerging threats—don’t bury those alerts
• Strong information security policies & strong acceptable use policy are a must!
Malware – Ransomware

- Cryptolocker/WannaCry/Petya all follow the same general strategy

Email – FedEx package is on its way
Employee clicks on link
Malicious payload is downloaded
Spreads to other computers on network

Forced to reply to the extortion message with payment by bitcoin
WannaCry Ransomware Message

What Happened to My Computer?
Your important files are encrypted. Many of your documents, photos, videos, databases and other files are no longer accessible because they have been encrypted. Maybe you are busy looking for a way to recover your files, but do not waste your time. Nobody can recover your files without our decryption service.

Can I Recover My Files?
Sure. We guarantee that you can recover all your files safely and easily. But you have not so enough time.
You can decrypt some of your files for free. Try now by clicking «Decrypt».
But if you want to decrypt all your files, you need to pay.
You only have 3 days to submit the payment. After that the price will be doubled.
Also, if you don’t pay in 7 days, you won’t be able to recover your files forever.
We will have free events for users who are so poor that they couldn’t pay in 6 months.

How Do I Pay?
Payment is accepted in Bitcoin only. For more information, click «About bitcoin».
Please check the current price of Bitcoin and buy some bitcoins. For more information, click «How to buy bitcoins».
And send the correct amount to the address specified in this window.
After your payment, click «Check Payment». Best time to check: 9:00am - 11:00am

Send $300 worth of bitcoin to this address:

126gYDpgwueZ3NyMgw519p7AA8ijsr6SMw

Contact Us
Insurance Company Ransomware Case

• Email came into company with Cryptolocker ransomware
  › Spread to numerous employee PCs
  › Company paid $1,000 bitcoin ransom
  › Did not completely remove malware
  › Two months later, company hit with $30,000 bitcoin ransom & paid again
  › Company put in place after the attack
    ▪ Layered security – Proofpoint
    ▪ Licensed KnowBe4 (knowbe4.com) – employee awareness tool, test for phishing
    ▪ Removed administrator rights at user level
Dedicated Password Cracker

- We utilize Hashcat, power of the Nvidia video cards
- We have cracked complex passwords up to 16 characters
- Dictionary words easiest to crack
- Our success rate is currently around 50% in cracking passwords
Accountability – Avoid These Common Password Pitfalls

- Current month or season
- A holiday
- City or street where you are located
- Child’s name with a number (especially a birth year)
- Name of a popular song/nursery rhyme/religious passage
- “Password” or “I hate passwords”
- Vulgarity or racial slurs
- Name of Windows service
- Name of common network protocols

CRACKED PASSWORDS

- $central1
- $$Zack$$
- tommyh14!
- pay$1596
- Twins123%
- qwert123Q!
- gnik.Tk75
- tyui-789
- zxcv-5987

Cracking 28% of clients’ passwords recently!
Password Vaults – Consumer Reports

- 1Password Families – $60/Yr
- Keeper Password Manager – $60/Yr
- Bitwarden Families – $12/Yr
- LastPass Premium – $36/Yr
- Dashlane Premium – $60/Yr
- Norton 360 Deluxe – $96/Yr
Safeguards to Phishing & Ransomware

• Layered security
• Employee training
• Rule of least privilege needed
• Strong passwords
Responding to a Cyber Event

**Cryptolocker & Ransomware Variants**
- Remove devices from the network
- Preserve devices so that forensics may be performed
- Segment the network

**CEO Scam – Wire Fraud**
- Contact your bank & secret service immediately

**Outside Hack**
- Implement incident response plan
BKD Thoughtware®

• Webinars, seminars, & articles
• Many are CPE-eligible
• Industry specific
Questions?
for more information
Cindy Boyle |.cboyle@bkd.com | 501.954.6470 (Direct)
bkd.com
Thank You!

for more information

Cindy Boyle | cboyle@bkd.com | 501.954.6470 (Direct)

bkd.com
BKD Capital Advisors: Insurance Market Activity Update

Presented By:
Wyatt Jenkins, Vice President – BKD Capital Advisors
BKD Capital Advisors – Overview

- Wholly-owned investment banking subsidiary founded in 1994
- BKDCA provides a range of services including
  - Mergers & acquisitions and recapitalizations
  - Capital sourcing
  - Advisory services, including strategic and intergenerational transition planning
- Our bankers have successfully executed in excess of $25 billion in transactions on behalf of our clients
- Diverse transaction experience spanning multiple industries and end markets
- Focused on high-quality, middle-market transactions with enterprise values from $10 million to $300 million
- Active senior banker involvement from start-to-finish, with support from a highly qualified team of junior bankers
Total Insurance M&A Activity

Insurance Deals Completed, 2010 – YTD Nov 2020

- **Brokers**
- **Underwriters**

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Insurance M&amp;A Activity</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>346</td>
</tr>
<tr>
<td>2011</td>
<td>406</td>
</tr>
<tr>
<td>2012</td>
<td>451</td>
</tr>
<tr>
<td>2013</td>
<td>336</td>
</tr>
<tr>
<td>2014</td>
<td>461</td>
</tr>
<tr>
<td>2015</td>
<td>573</td>
</tr>
<tr>
<td>2016</td>
<td>566</td>
</tr>
<tr>
<td>2017</td>
<td>682</td>
</tr>
<tr>
<td>2018</td>
<td>708</td>
</tr>
<tr>
<td>2019</td>
<td>685</td>
</tr>
<tr>
<td>YTD Nov 2020</td>
<td>514</td>
</tr>
</tbody>
</table>
Insurance Broker Segment

• The insurance brokerage segment continues to be the most active in insurance M&A, accounting for nearly 90% of total completed deals through November 2020.

• Private equity is a significant catalyst for activity, as brokers present an outstanding option for private equity groups (“PEGs”).
  ▪ PEGs are especially active in looking for investment opportunities, as aggregate private equity unallocated capital reached a record level of $1.45 trillion in June of this year.

• Significant opportunity for “multiple arbitrage” exists when a PEG acquires smaller agencies at lower valuations, builds a franchise, and can exit its investment at a higher valuation multiple.

• Earn-outs becoming bigger part of the discussion in some transactions.

• Public EV/EBITDA multiples peaked at 17.4x in February and fell to 11.5x following the onset of the COVID-19 pandemic. Valuations have since recovered, reaching 14x at the close of November.

• The top five most acquisitive buyers completed a total of 125 deals through November, 27% of completed deals in the insurance broker segment.
  ▪ Acrisure lead the segment YTD 2020 with 46 completed acquisitions through November.
Insurance Valuation Drivers

A COMBINATION OF THESE FACTORS IS WHAT TYPICALLY DIFFERENTIATES A SINGLE-DIGIT MULTIPLE FROM A DOUBLE-DIGIT MULTIPLE

- Adaptability
- Leadership
- Size
- Youth
- Sales Culture
- Participation
- Proactive
## Insurance Broker Segment – Select Public Comparable Companies

<table>
<thead>
<tr>
<th>Company</th>
<th>Ticker</th>
<th>Price (11/30/20)</th>
<th>Market Capitalization</th>
<th>LTM Revenue</th>
<th>LTM EBITDA</th>
<th>Enterprise Value</th>
<th>EBITDA Margin</th>
<th>EV/Revenue</th>
<th>EV/EBITDA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aon</td>
<td>AON</td>
<td>$204.9</td>
<td>$46,674.6</td>
<td>$10,986.0</td>
<td>$3,618.0</td>
<td>$54,512.6</td>
<td>32.9%</td>
<td>5.0x</td>
<td>14.1x</td>
</tr>
<tr>
<td>Arthur J. Gallagher</td>
<td>AJG</td>
<td>115.4</td>
<td>22,195.9</td>
<td>6,776.1</td>
<td>1,548.7</td>
<td>26,566.5</td>
<td>22.9%</td>
<td>3.9x</td>
<td>15.6x</td>
</tr>
<tr>
<td>AUB Group</td>
<td>AUB</td>
<td>12.3</td>
<td>913.9</td>
<td>246.9</td>
<td>66.3</td>
<td>1,089.6</td>
<td>26.9%</td>
<td>4.4x</td>
<td>14.4x</td>
</tr>
<tr>
<td>Brown &amp; Brown</td>
<td>BRO</td>
<td>45.0</td>
<td>12,791.2</td>
<td>2,543.0</td>
<td>884.6</td>
<td>14,027.1</td>
<td>34.8%</td>
<td>5.5x</td>
<td>14.9x</td>
</tr>
<tr>
<td>Marsh &amp; McLennan Companies</td>
<td>MMC</td>
<td>114.6</td>
<td>58,144.3</td>
<td>17,072.0</td>
<td>4,734.0</td>
<td>70,902.3</td>
<td>27.7%</td>
<td>4.2x</td>
<td>13.6x</td>
</tr>
<tr>
<td>Willis Towers Watson</td>
<td>WLTW</td>
<td>208.2</td>
<td>26,836.8</td>
<td>9,278.0</td>
<td>2,204.0</td>
<td>31,966.8</td>
<td>23.8%</td>
<td>3.4x</td>
<td>13.2x</td>
</tr>
<tr>
<td><strong>Mean</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>4.4x</td>
<td>14.3x</td>
</tr>
</tbody>
</table>
Insurance Broker Segment – EV/EBITDA Multiples

LTM & TTM EV/EBITDA Multiples, Dec 2019 – Nov 2020

LTM EV/EBITDA
NTM EV/EBITDA
Insurance Underwriter Segment

• The insurance underwriter segment generated far fewer transactions than the broker segment, with 140 closed transactions since the beginning of 2019, compared to 1,059 for the broker segment over the same period.
  - This is due to the highly-concentrated nature of the underwriter segment, which causes a scarcity of targets.

• The property & casualty subsegment accounted for more than half (55%) of deals in the underwriter segment from 2018 to November 2020.

• EV/EBITDA multiples in this segment peaked at 13.1x in January fell to a low of 8.2x in late March following the early stages of the pandemic. Valuations have since recovered, reaching 14x at the close of November.
  - The high-low difference in valuation multiples this year for the underwriter segment was 37.4%, compared to the 33.7% difference for the broker segment, depicting brokers as slightly more resistance to this year’s economic climate.

• Publicly-traded companies Anthem and Centene closed three deals each since the beginning of 2019.
  - Of these six closed transactions, five happened in 2020, and three of the 2020 deals happened after the onset of the pandemic.
  - On November 9, Centene announced its plan to acquire Apixio, a health care-oriented data science company, with a likely close in 2021.
Insurance Underwriter Segment – Deals by Sector

Insurance Underwriter Deals by Segment, 2010 – YTD Nov 2020

Top 5 Acquirers, 2019 – YTD 2020

Anthem, Inc. 3
Centene Corporation 3
Buckle Agency LLC 2
CareFirst, Inc. 2
DARAG Group Ltd. 2
<table>
<thead>
<tr>
<th>Company</th>
<th>Ticker</th>
<th>Price (11/30/20)</th>
<th>Market Capitalization</th>
<th>LTM Revenue</th>
<th>LTM EBITDA</th>
<th>Enterprise Value</th>
<th>EBITDA Margin</th>
<th>EV/Revenue</th>
<th>EV/EBITDA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aflac Incorporated</td>
<td>AFL</td>
<td>$43.9</td>
<td>$30,858.4</td>
<td>$21,837.0</td>
<td>$4,272.0</td>
<td>$34,615.4</td>
<td>19.6%</td>
<td>1.6x</td>
<td>8.0x</td>
</tr>
<tr>
<td>Anthem, Inc.</td>
<td>ANTM</td>
<td>311.5</td>
<td>77,476.4</td>
<td>117,449.0</td>
<td>8,678.0</td>
<td>96,344.4</td>
<td>7.4%</td>
<td>0.8x</td>
<td>10.5x</td>
</tr>
<tr>
<td>Cigna Corporation</td>
<td>CI</td>
<td>209.1</td>
<td>75,555.4</td>
<td>157,009.0</td>
<td>11,310.0</td>
<td>106,884.4</td>
<td>7.2%</td>
<td>0.7x</td>
<td>9.3x</td>
</tr>
<tr>
<td>CNO Financial Group, Inc.</td>
<td>CNO</td>
<td>21.3</td>
<td>2,957.6</td>
<td>3,813.9</td>
<td>731.9</td>
<td>6,007.0</td>
<td>19.2%</td>
<td>1.6x</td>
<td>8.2x</td>
</tr>
<tr>
<td>Humana Inc.</td>
<td>HUM</td>
<td>400.5</td>
<td>53,005.4</td>
<td>74,388.0</td>
<td>5,963.0</td>
<td>53,017.4</td>
<td>8.0%</td>
<td>0.7x</td>
<td>8.8x</td>
</tr>
<tr>
<td>UnitedHealth Group Incorporated</td>
<td>UNH</td>
<td>336.3</td>
<td>319,126.4</td>
<td>252,575.0</td>
<td>26,139.0</td>
<td>350,090.4</td>
<td>10.3%</td>
<td>1.4x</td>
<td>12.9x</td>
</tr>
</tbody>
</table>

Mean: 1.1x 9.6x
Insurance Underwriter Segment – EV/EBITDA Multiples

LTM & TTM EV/EBITDA Multiples, Dec 2019 – Nov 2020

LTM EV/EBITDA

NTM EV/EBITDA
Conclusion – Insurance Industry Outlook

• Despite the trying economic challenges presented in 2020, many acquirers (both strategic and private equity) have continued to close transactions, and the M&A market has become increasingly active as 2020 comes to a close.

• Market sentiment has steadily improved since March, for both the insurance industry and overall economy.
  ▪ Forward valuation multiples are currently higher than historical valuation multiples, indicating there are positive expectations for the future of the insurance market.

• Key considerations for 2021
  ▪ COVID-19’s economic impact remains dynamic, and insurance industry participants should closely monitor new developments and their potential impact on the economic and political landscape.
  ▪ With Biden winning the presidential election, tax reform has recently become a popular topic for 2021. U.S. tax reform should be a priority in the M&A environment when forecasting and planning for future deal activity. Deal participants will have to remain proactive and adaptive through 2021 to be best positioned for obstacles that may arise.
Thank You!

for more information
wjenkins@bkd.com
bkd.com
Appendix: BKD Capital Advisors Overview
BKD Capital Advisors – Process Culture

Passionate & Straightforward

- BKDCA works hard to level-set expectations at critical junctures of a process, *i.e.*, we avoid overselling any event to our clients in a process
- BKDCA works extremely hard in a process to command respect of the buyer community, *i.e.*, buyers heed our advice
- We have a great track record of building interest with both strategic and financial buyers based on how we manage communications in a process
- We treat each buyer honestly and fairly with the singular objective of maximizing value for our clients

Highly Organized, Detailed, & Thoughtful

- Highly cohesive team
- Focused on gaining a detailed understanding of our clients’ businesses
- Best-in-class marketing materials
- Significant management coaching ahead of management presentations, *i.e.*, FAQ document
- Unique buyer insight at each transaction milestone

Proactive & Creative

- Play offense throughout the entire process
- Control timing, positioning, process milestones, and information dissemination
- Immediately (and creatively) address unexpected issues in a process
- Design a process that enables the sellers to retain leverage
BKD Capital Advisors – Team

TONY GIORDANO
President
Denver, CO

TONY SCHNEIDER
Managing Director
Indianapolis, IN

GREG LAFIN
Managing Director
Chicago, IL

TIM TROSTLE
Director
Indianapolis, IN

JASON CORSON
Director
Springfield, MO

WYATT JENKINS
Vice President
Springfield, MO

MICHAEL MCELREATH
Assistant Vice President
Denver, CO

RYAN BURTON
Senior Associate
Indianapolis, IN

BLYTHE BERKA
Senior Associate
Denver, CO

KEVIN WAGNER
Financial Analyst
Indianapolis, IN
Panel Discussion: Strategic Planning & 2020 Lessons Learned
BKD Moderator
National Insurance Services Practice Leader
Tom Wheeland

Panelists

- Mike McCoy, CEO, NCMIC
- Greg Blythe, Vice President, Accounting & Treasurer, IMT Insurance
- Mark Miske, Senior Vice President, Chief Financial Officer, Treasurer, Indiana Farm Bureau Insurance
Questions?
for more information
Thomas Wheeland, CPA | BKD National Insurance Services Practice Leader
314.802.0213 | twheeland@bkd.com
bkd.com
See you next year!
The information contained in these slides is presented by professionals for your information only and is not to be considered as legal advice. Applying specific information to your situation requires careful consideration of facts & circumstances. Consult your BKD advisor or legal counsel before acting on any matters covered.

BKD, LLP is registered with the National Association of State Boards of Accountancy (NASBA) as a sponsor of continuing professional education on the National Registry of CPE Sponsors. State boards of accountancy have final authority on the acceptance of individual courses for CPE credit. Complaints regarding registered sponsors may be submitted to the National Registry of CPE Sponsors through its website: www.nasbaregistry.org.