

Understanding Insurer Financial Ratings

It is crucial to do business with financially stable insurers; otherwise, the policy you have purchased is not worth the paper it is printed on.

A variety of reliable external resources are available to assist in making quality insurer selections. Monitoring changes in financial ratings is part of HUNTERS mandate to keep our Clients informed.

Analyzing insurers' overall performance and financial strength is a task that requires specialized skills and a complete understanding of all aspects of insurance operations. For many years, A.M. Best was the sole source of this type of analysis. Since the early 1980s, a handful of additional firms have joined the property-casualty insurer rating and financial analysis industry.

All of the rating agencies use a combination of quantitative and qualitative analysis of the information available to them to arrive at an opinion on an insurer's ability to meet policyholder obligations over the long term. When complete information is not available, rating opinions are qualified in some way to reflect the restrictions on the analysis.

This discussion will not attempt to explain the actual processes or formulas raters use to derive ratings. Some of the general quantitative factors that are considered in assigning insurer ratings are:

- Liquidity
- Leverage
- Investments
 - Diversification
 - Quality
- Risk-Based Capitalization
- Profitability
 - Loss Ratio
 - Combined Ratio
 - Return on Assets

Some of the general qualitative factors that are considered in assigning insurer ratings are:

- Market Conditions
- Product/Geographic Diversification
- Competitive Position in Market
- Management Philosophy and Experience
- Exposure to Volatile Lines
- Parent Affiliation
- Adequacy of Reserves
- Trend/Stability of Performance

SOURCES OF INSURER FINANCIAL INFORMATION	
A.M. Best Company Ambest Road Oldwick, NJ 08858-9988 Telephone: (908) 439-2200 www.ambest.com www.trac.com (A.M. Best Canada)	Standard & Poor's 55 Water Street New York, NY 10041 Telephone: (212) 438-7200 www.standardandpoors.com
Demotech 2941 Donnylane Blvd. Columbus, OH 43235-3228 Telephone: (800) 354-7207 www.demotech.com	Weiss Ratings 4176 Burns Road Palm Beach Gardens, FL 33410 Telephone: (800) 289-9222 www.weissratings.com
Moody's Investors Services 99 Church Street New York, NY 10007 Telephone: (212) 553-1658 www.moodys.com	

HUNTERS has a rating guide available for each of the above.

Courtesy of The International Risk Management Institute



A HUNTERS Publication to Reduce Insurance Hassle-Factor

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