

Note: This session has live audience polling

Review & Preview

AM Best's 31st Annual *Review & Preview* Conference
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Property/Casualty Benchmarking

Robert Raber – Senior Director, AM Best

Dan Teclaw – Director, AM Best

This session has live Q&A – please submit questions via the “Ask A Question” icon in the session navigation bar



Polling Question #1

According to Best's Credit Rating Methodology,

- a) Benchmarks can be created using industry composites / sub-composites, ICR composites, or other customized parameters
- b) It may be appropriate to compare a rating unit against more than one benchmark
- c) When the population of peers is small, the calculation of benchmark composites may be foregone
- d) All of the above



Benchmarking

Validates current assessment assignments

Helps identify outliers that require further investigation when assigning or affirming assessments

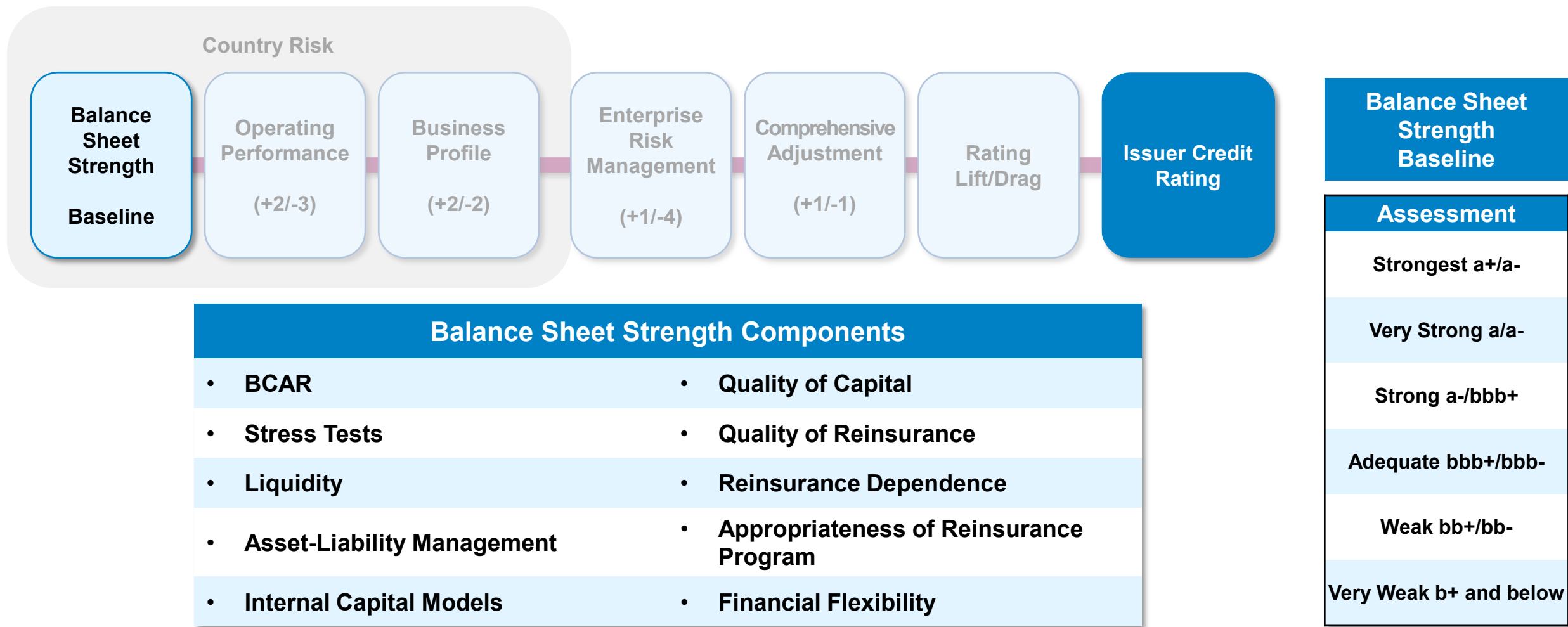
Part of the analytical process that often introduces discussions on future rating actions

Most transparent application for rating blocks with objective measures

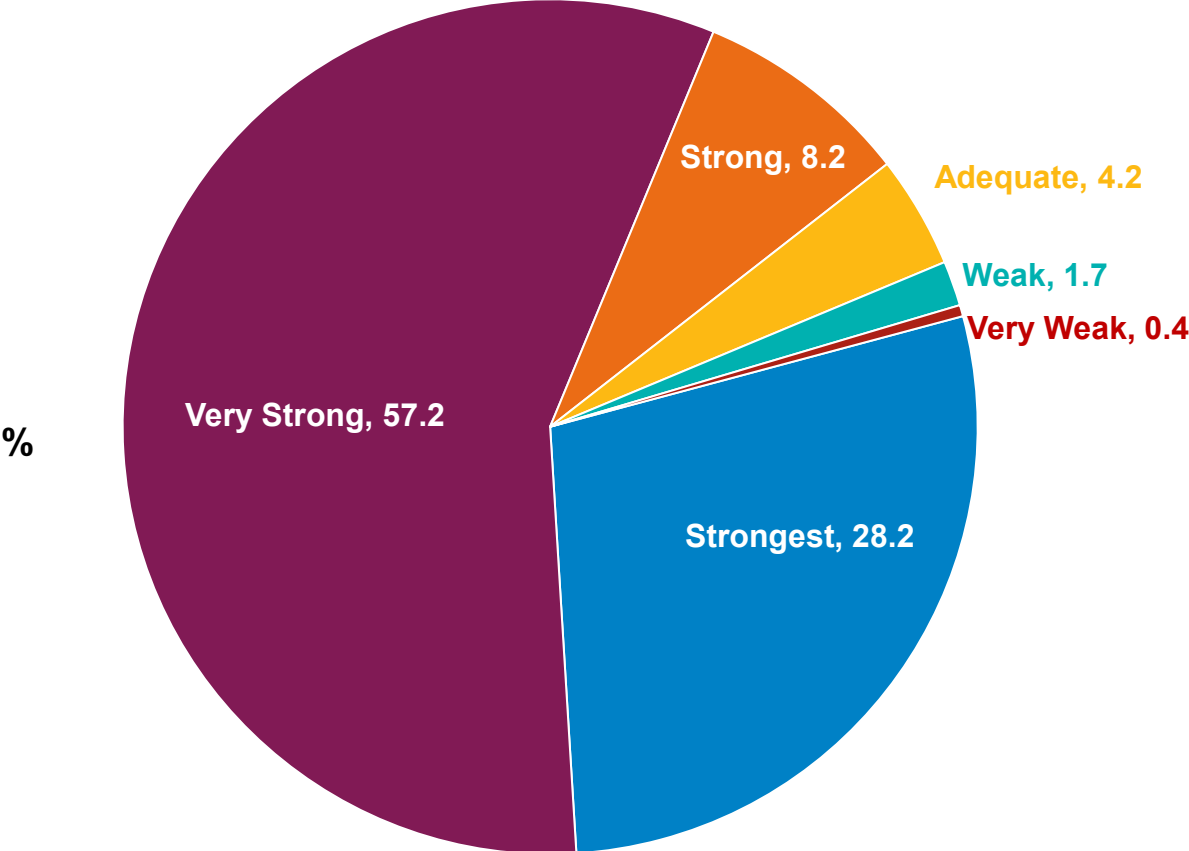
Not prescriptive – deviations could be warranted

Balance Sheet Strength Benchmarks

Balance Sheet Strength

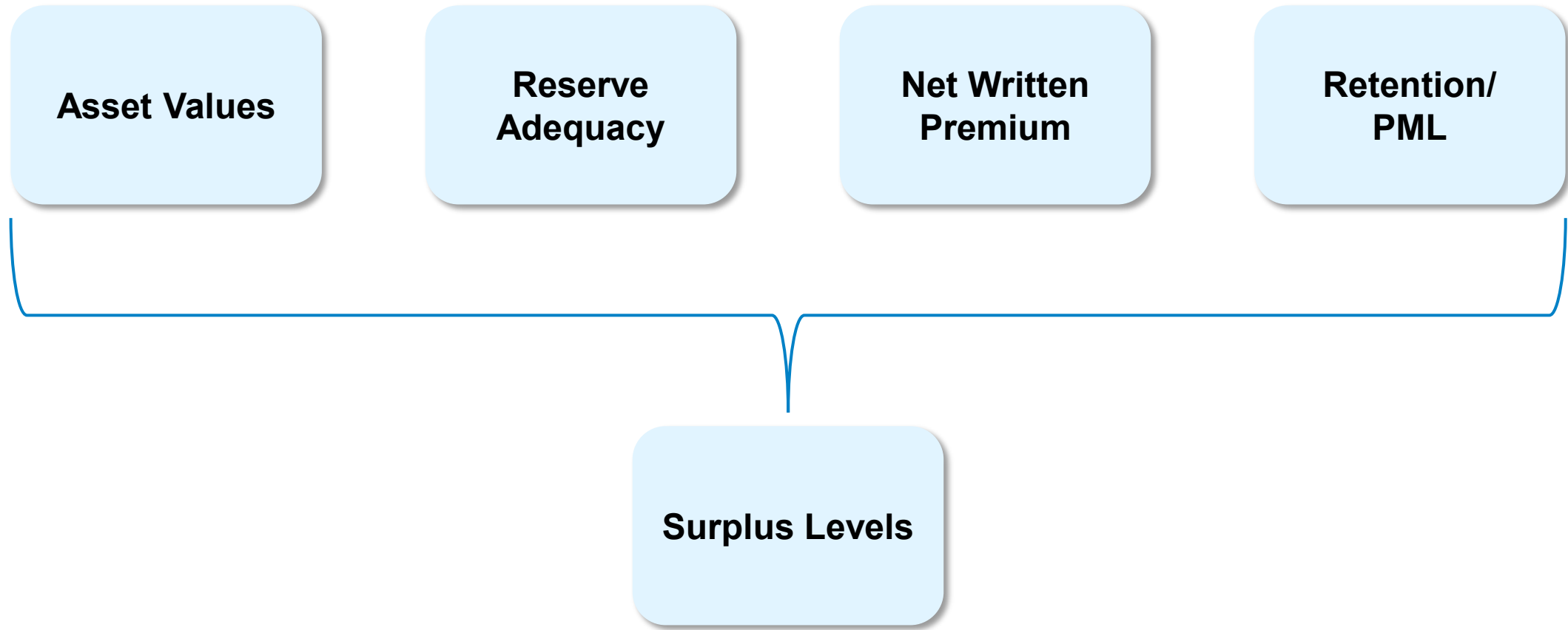


Balance Sheet Strength Assessment Distribution



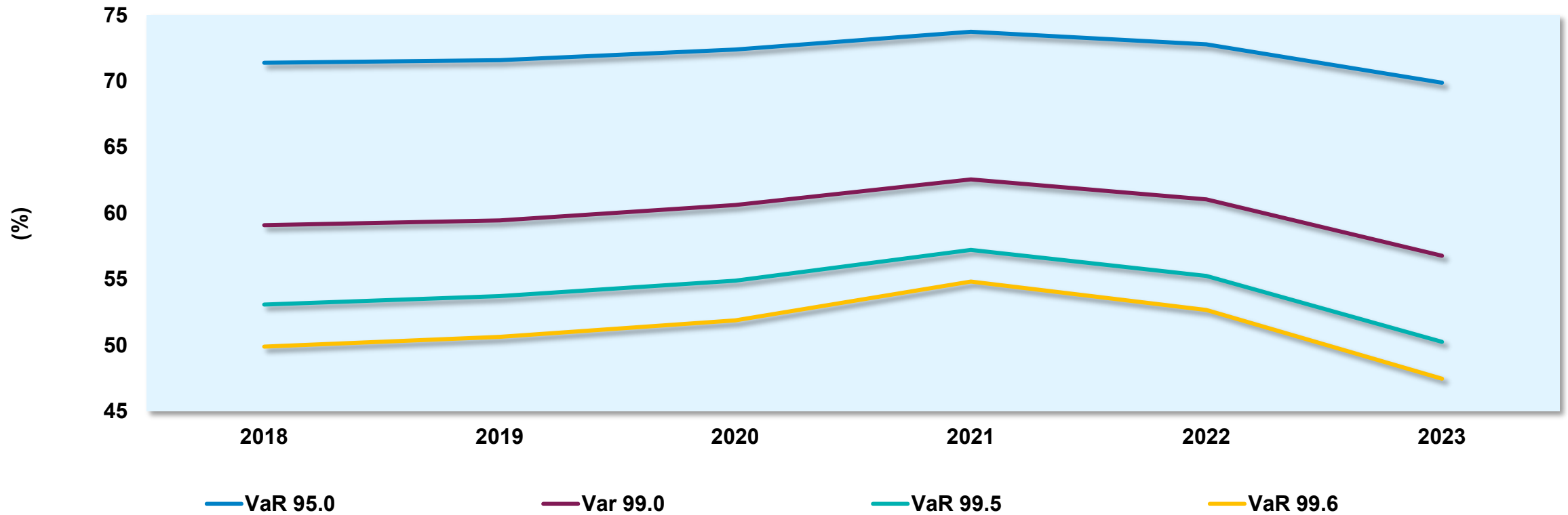
* As of 12/23/2023

BCAR – Risk-Based Capitalization

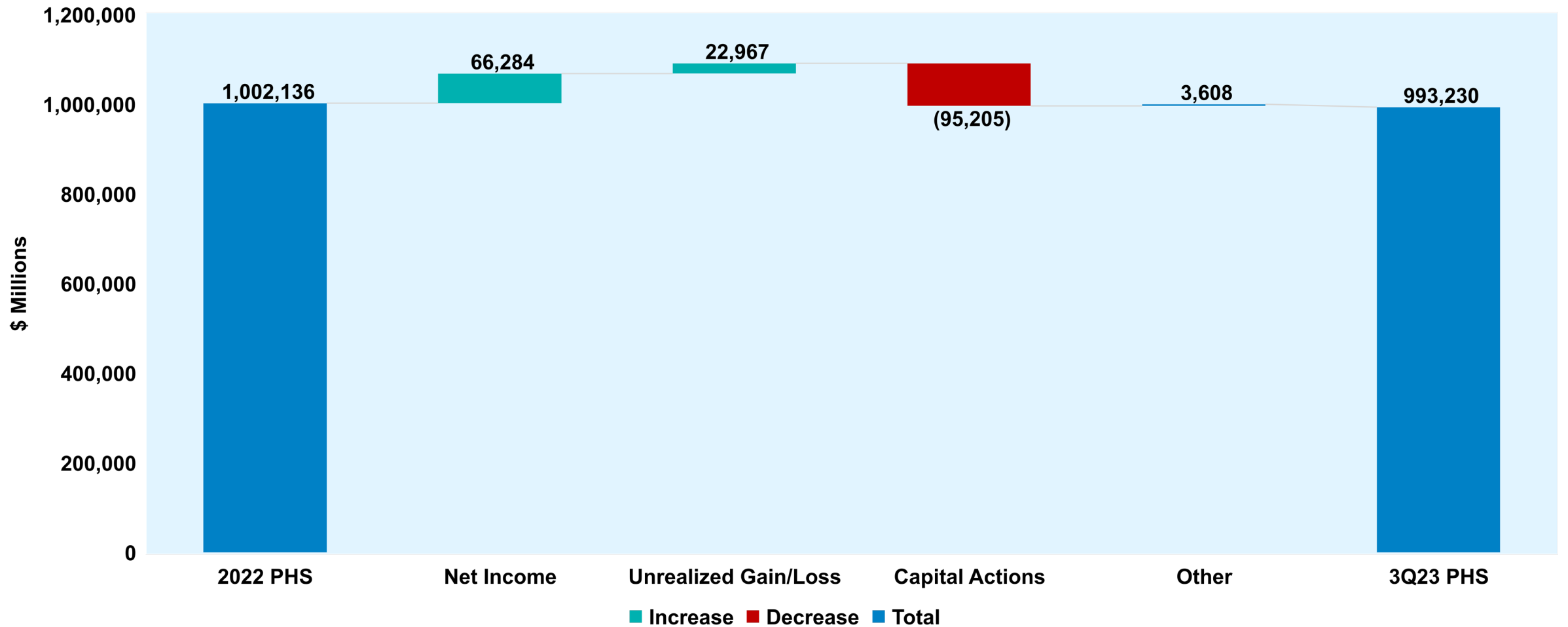


“Strongest” Risk-Based Capitalization with Minor Erosion in Tail Scenarios

Average BCAR

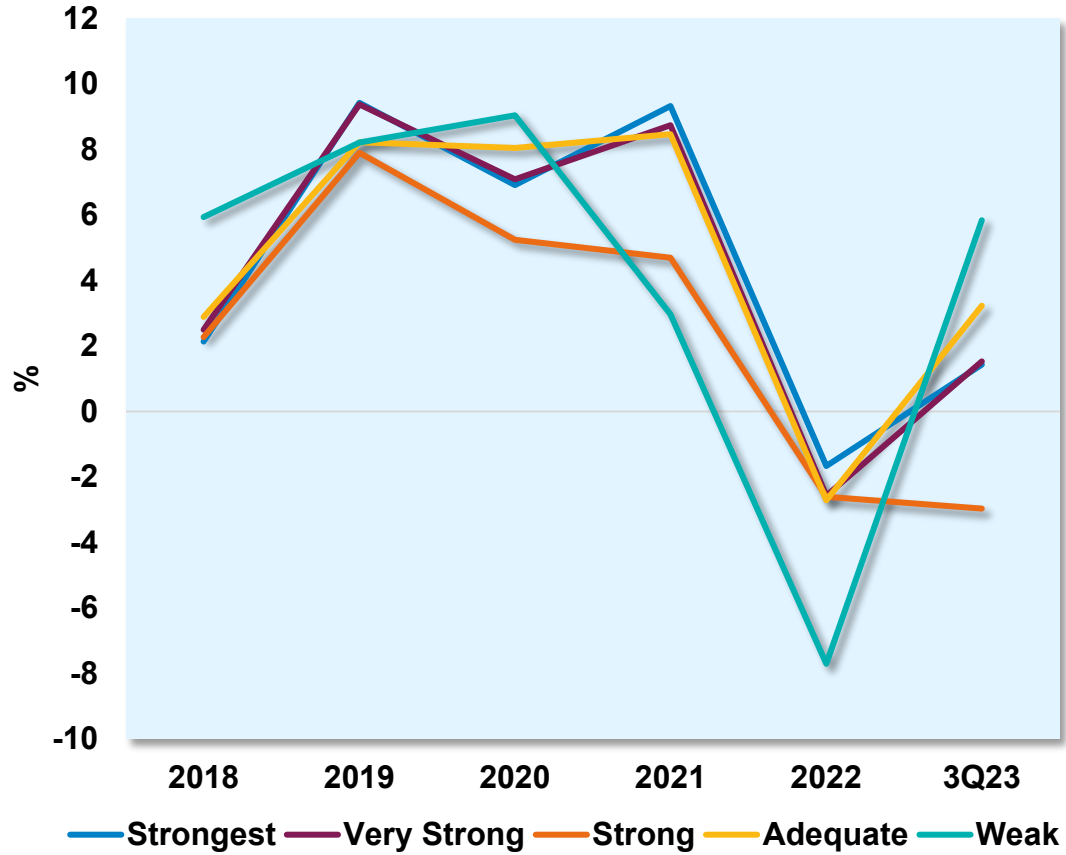


P/C Industry Surplus Declined

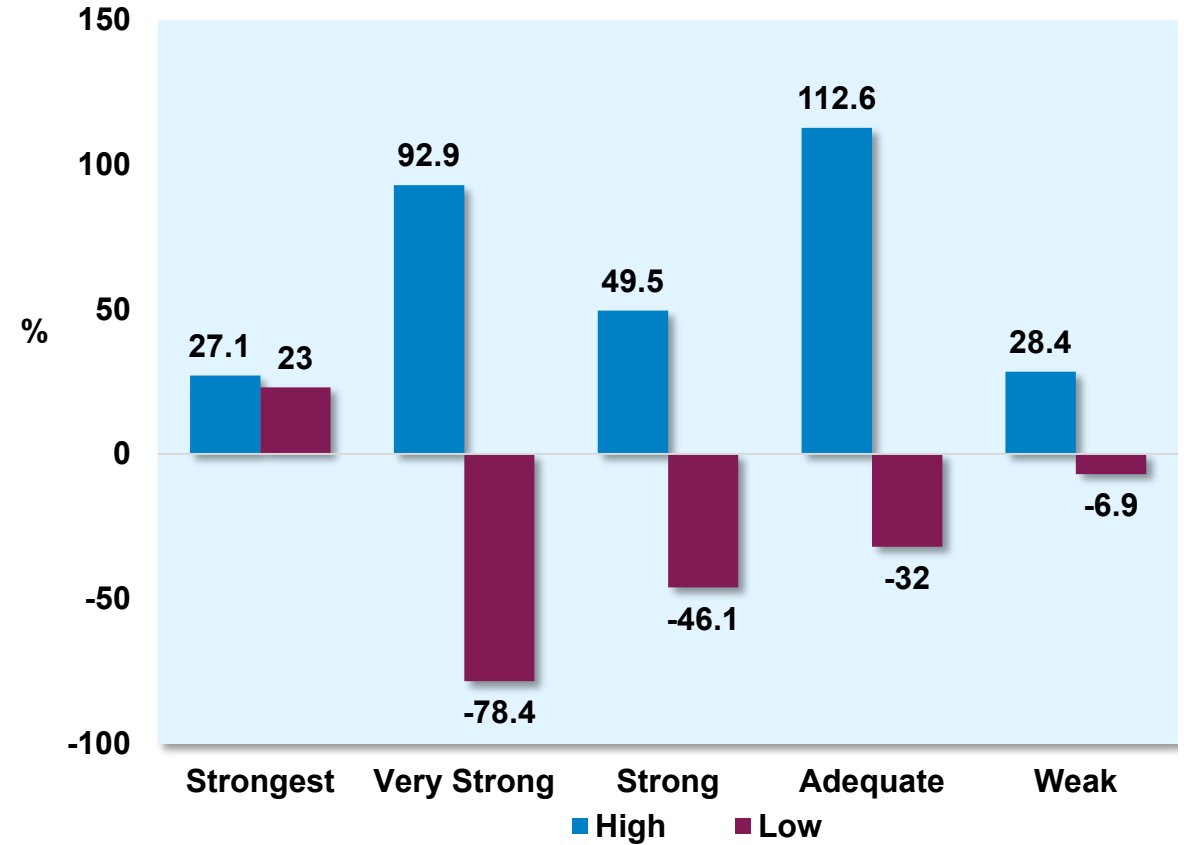


Overall Declines Manageable But There Are Outliers

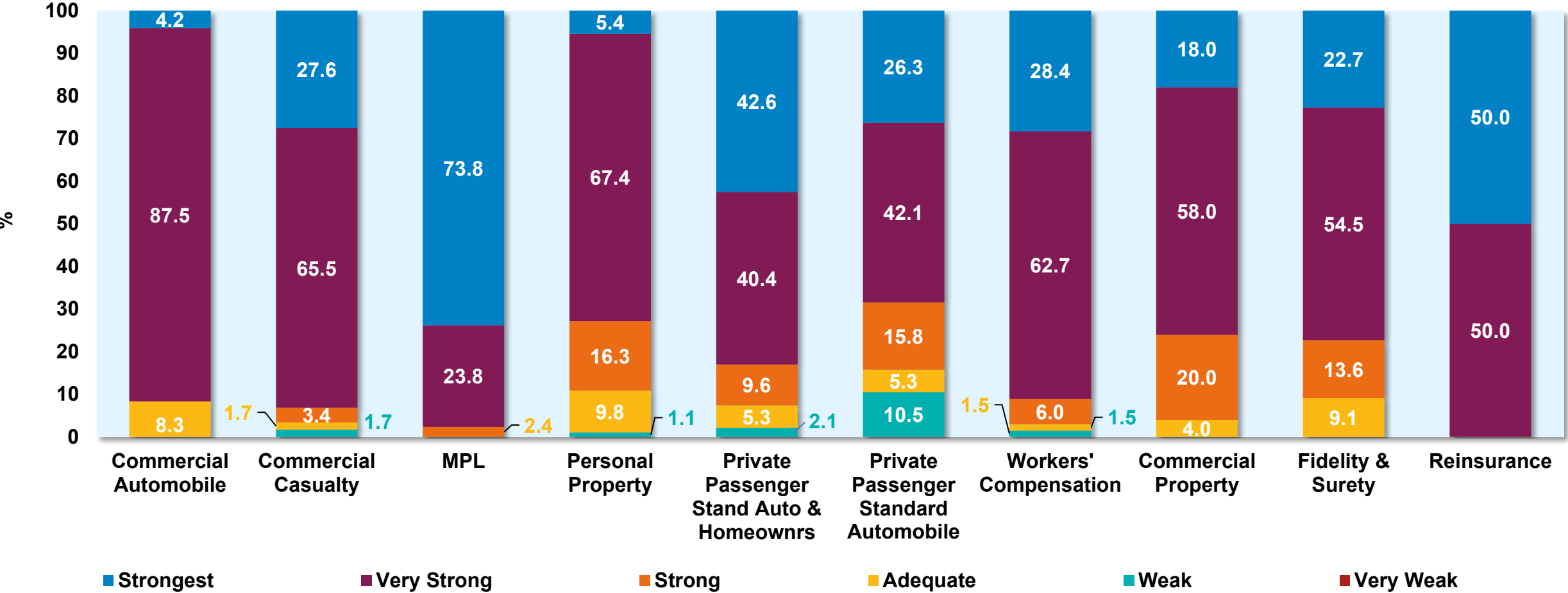
Median Change in Surplus



Range of Surplus Change – 3Q23

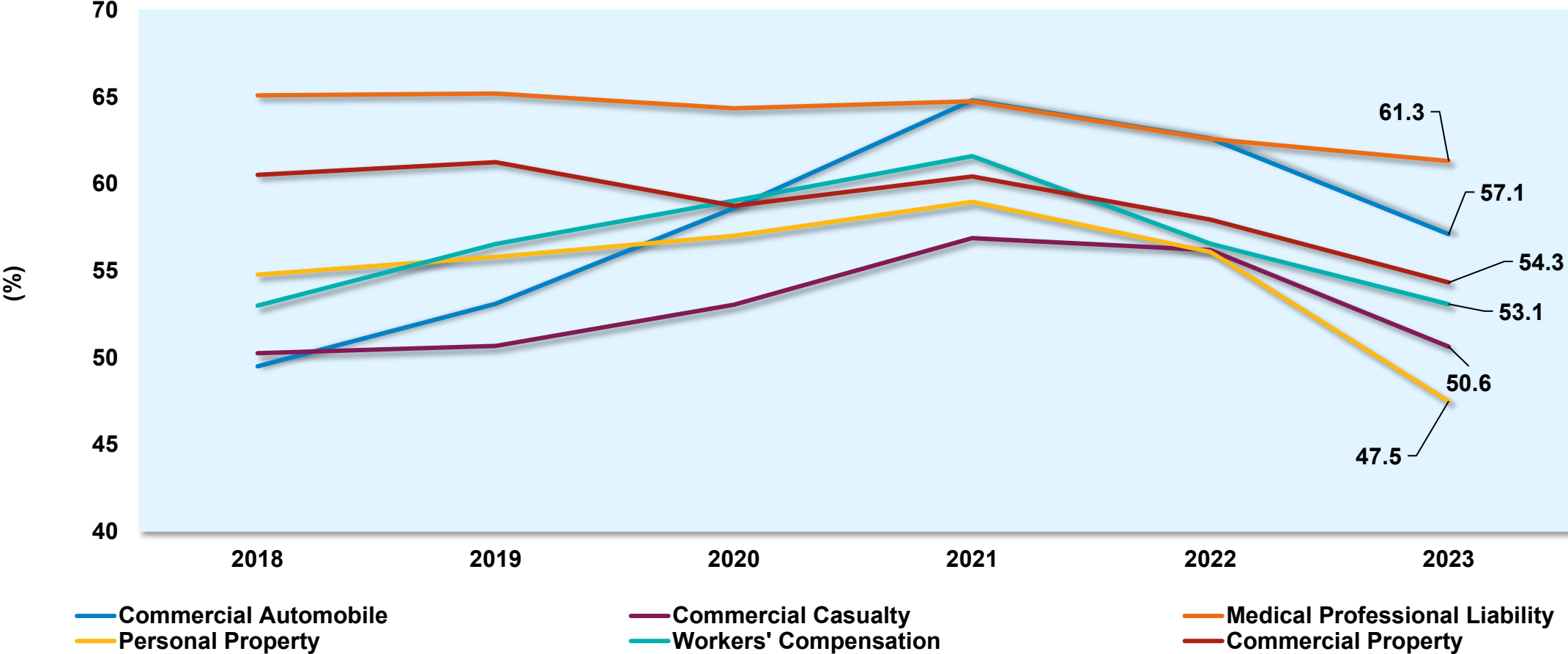


Balance Sheet Strength Assessment Distribution



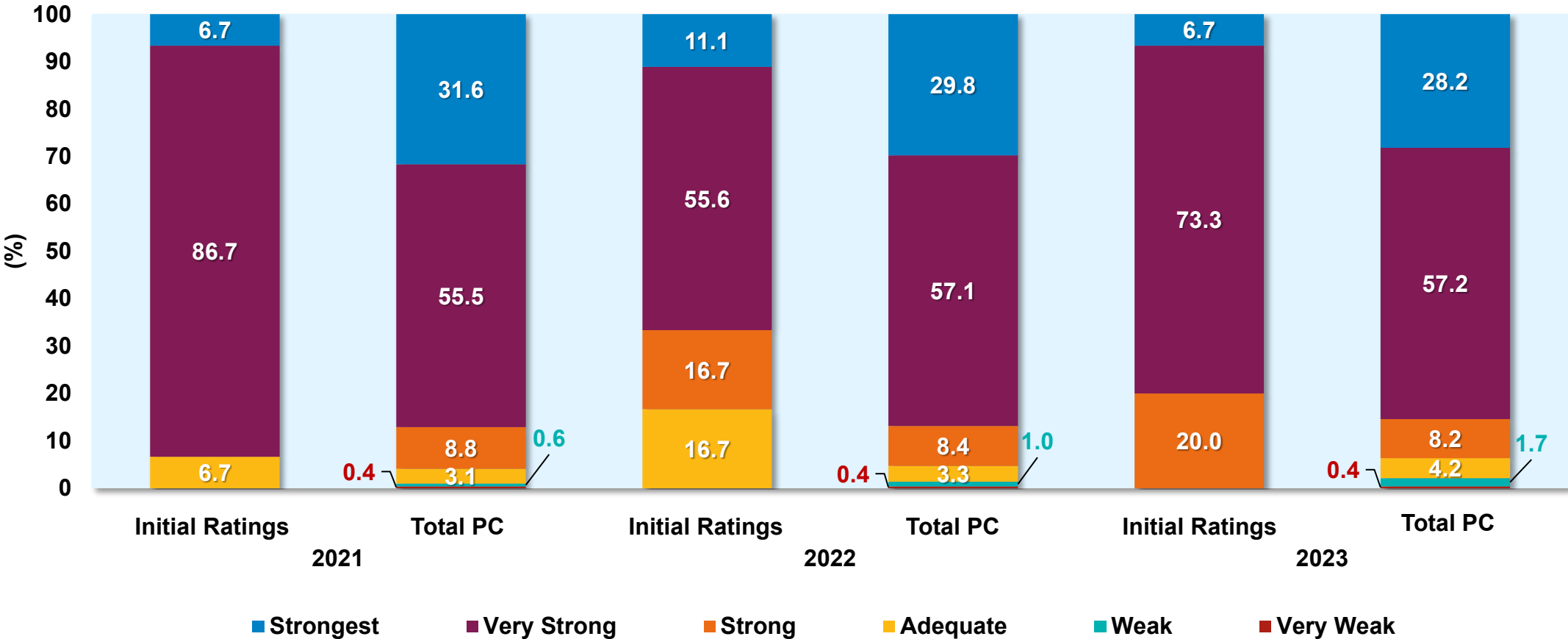
Enhance Peer Comparison by Lines of Business

Average BCAR score at VaR 99.5 by Composite



New Ratings Coming to AM Best with Better Balance Sheet Attributes

Balance Sheet Strength: Initial Assessments vs. Total



Size & BCAR Scores Influence BSS Assessments

PHS \$000	Max	Top 25%	Median	Bottom 25%	Min
Strongest	251,649,093	2,409,133	691,176	276,354	31,777
Very Strong	24,235,000	232,444	74,265	30,641	580
Strong	7,593,194	147,261	27,621	9,629	1,864
Adequate	746,618	51,854	18,053	9,516	1,605
Weak	165,762	68,598	19,320	3,531	1,598

BCAR 99.6	Max	Top 25%	Median	Bottom 25%	Min
Strongest	99	68	58	47	18
Very Strong	99	66	52	38	(2)
Strong	99	60	40	14	(13)
Adequate	86	26	10	(1)	(282)
Weak	55	(19)	(26)	(41)	(107)

Polling Question #2

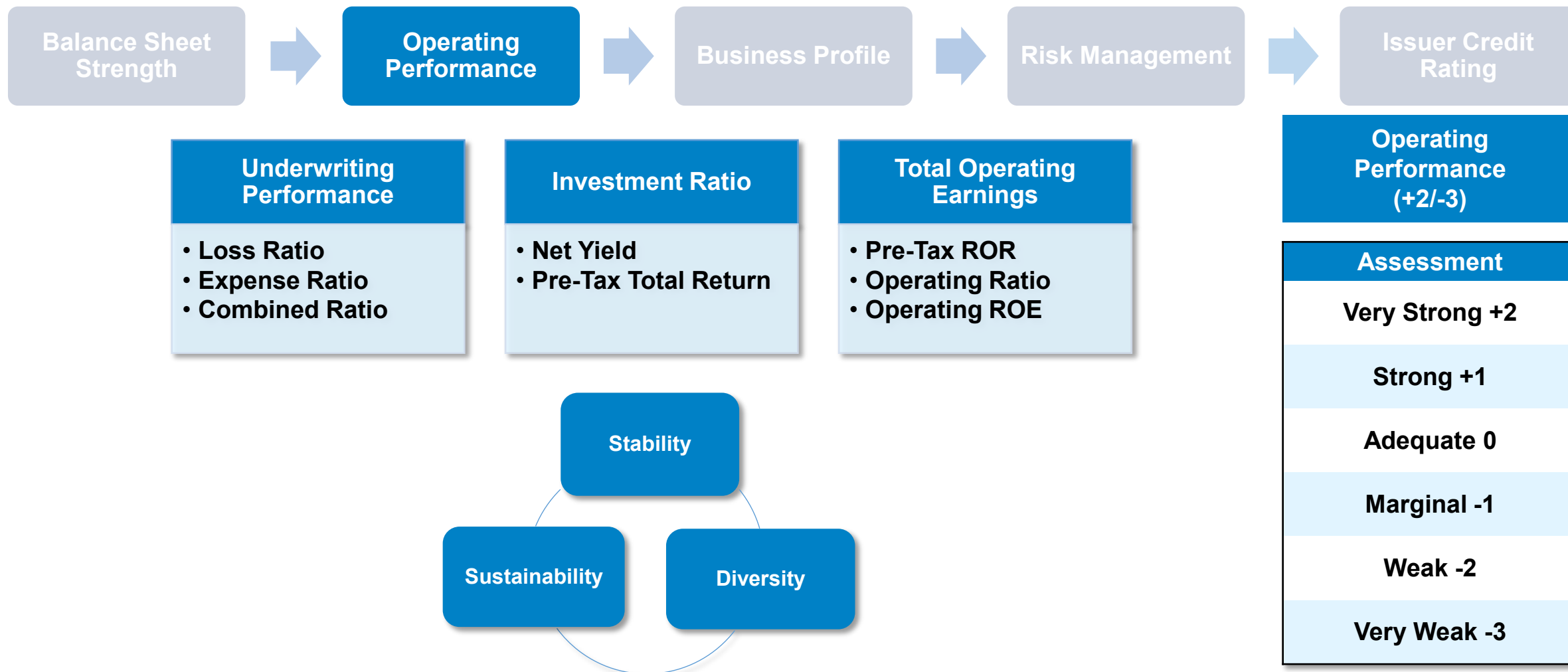
What are some hazards in benchmarking?

- a) Poorly chosen peers
- b) Lack of context
- c) Insufficient data quality or quantity
- d) Rigidity in applying conclusions
- e) All of the above

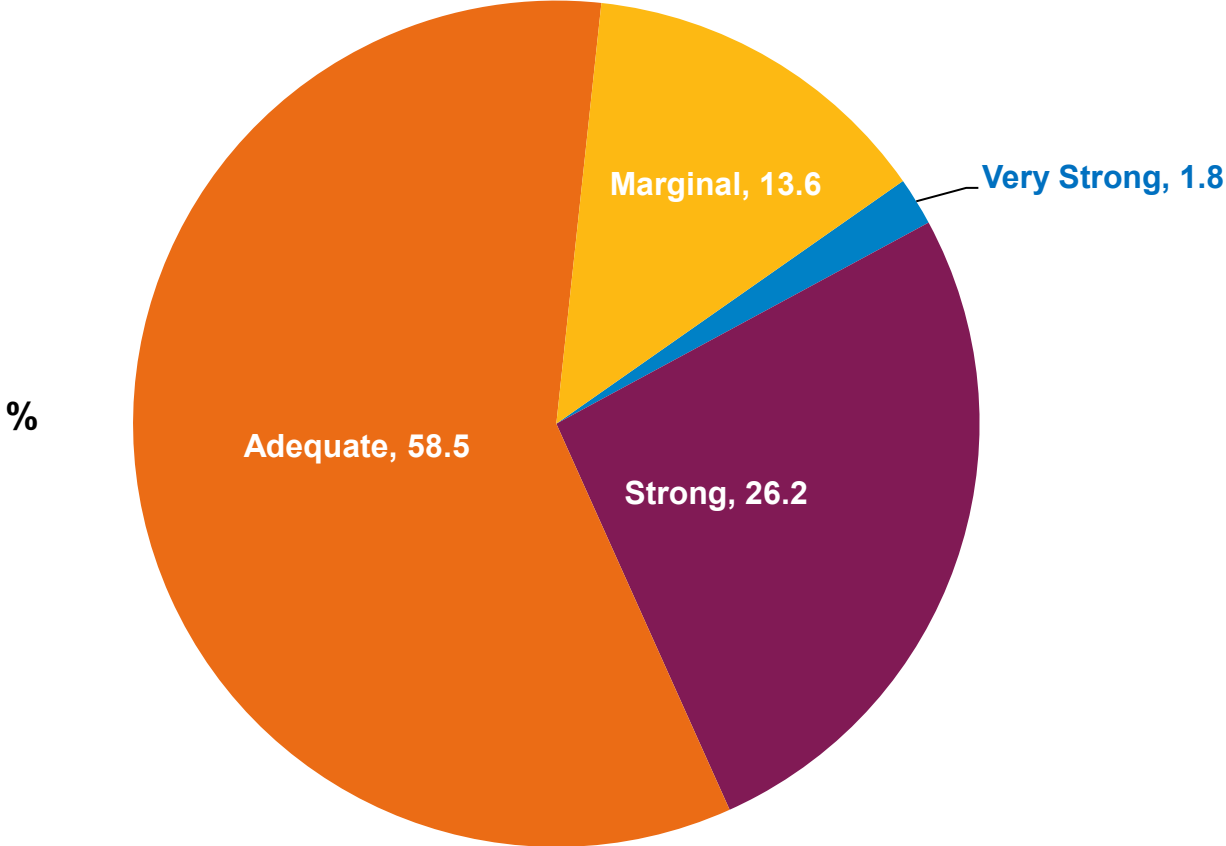


Operating Performance Benchmarks

Operating Performance



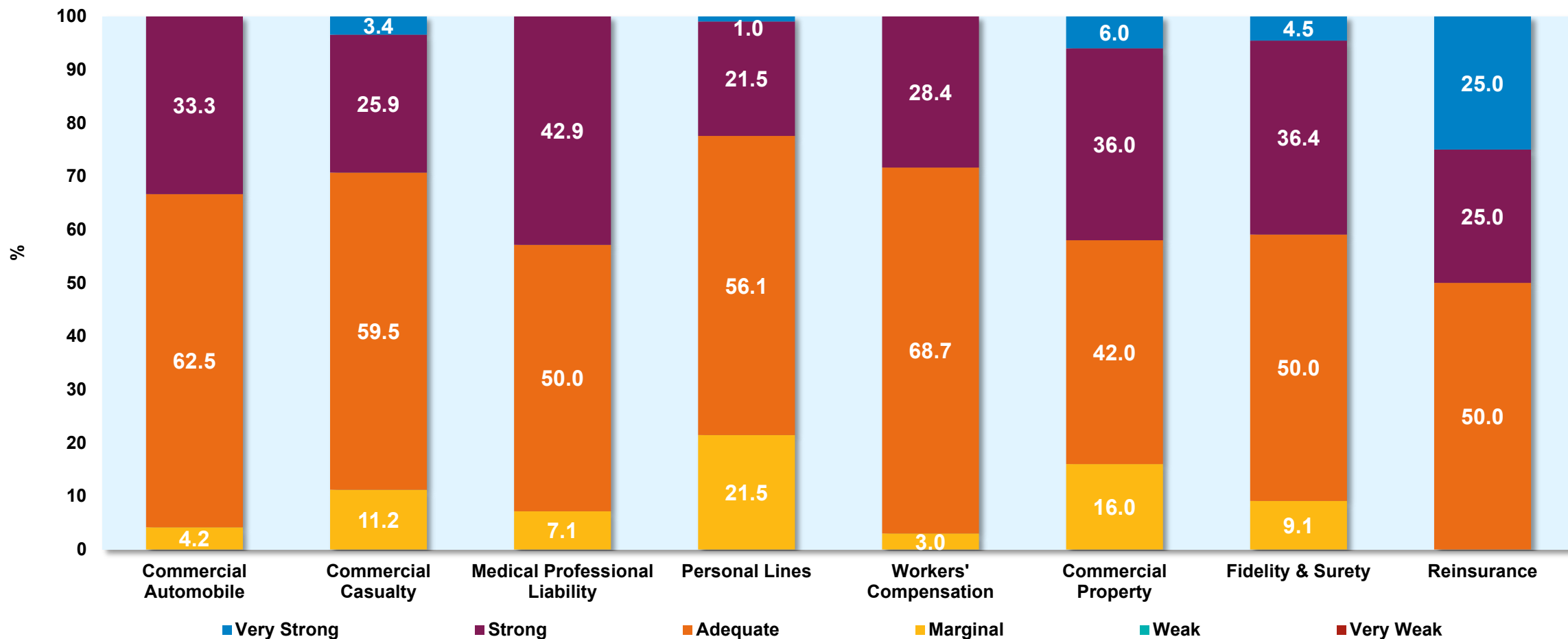
Operating Performance Assessment Distribution



* As of 12/23/2023

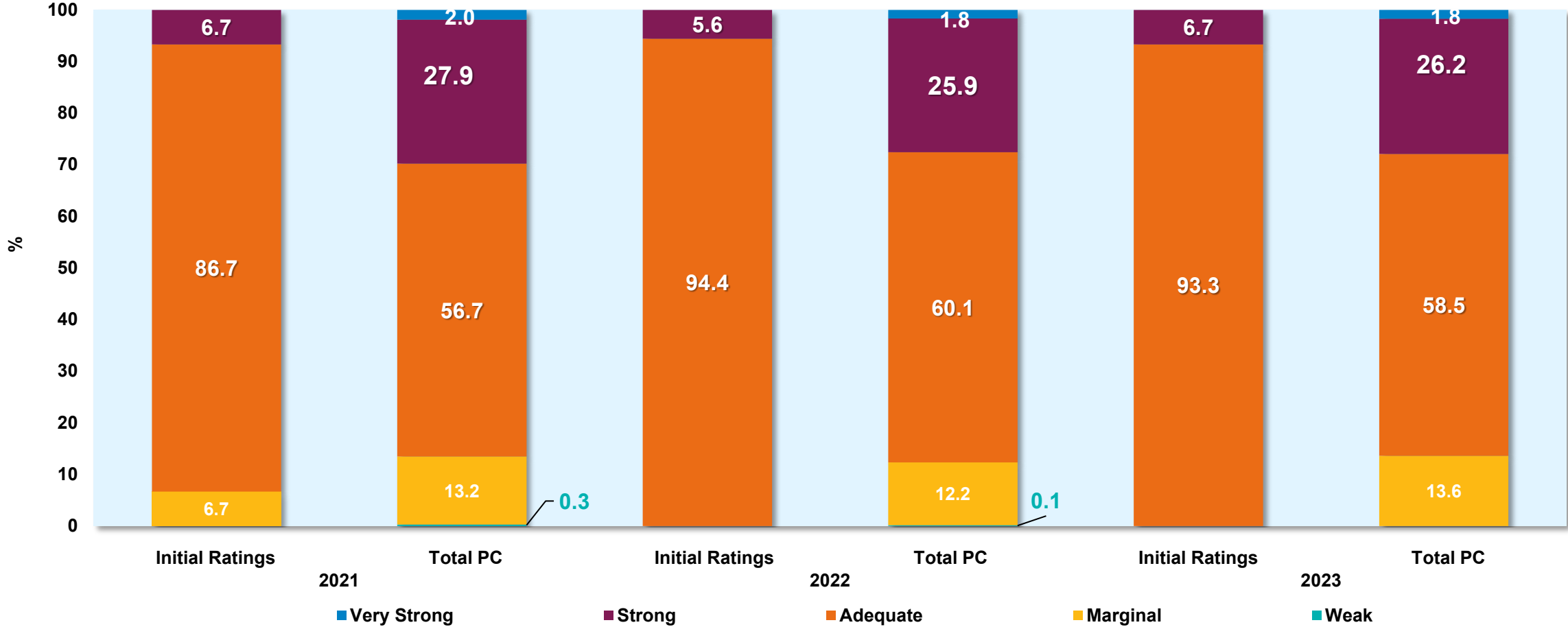
Operating Performance Assessment Distribution

Operating Performance Assessment by Composite



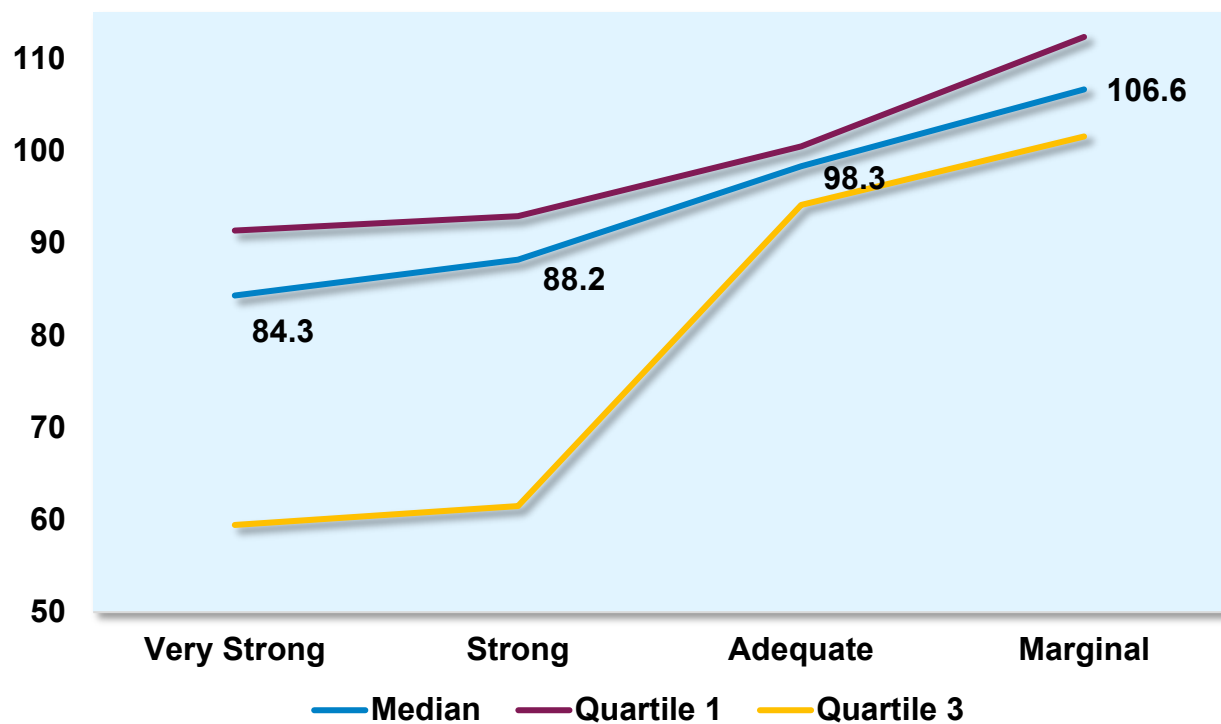
Operating Performance Assessment Distribution

Operating Performance Strength: Initial Assessments vs. Total

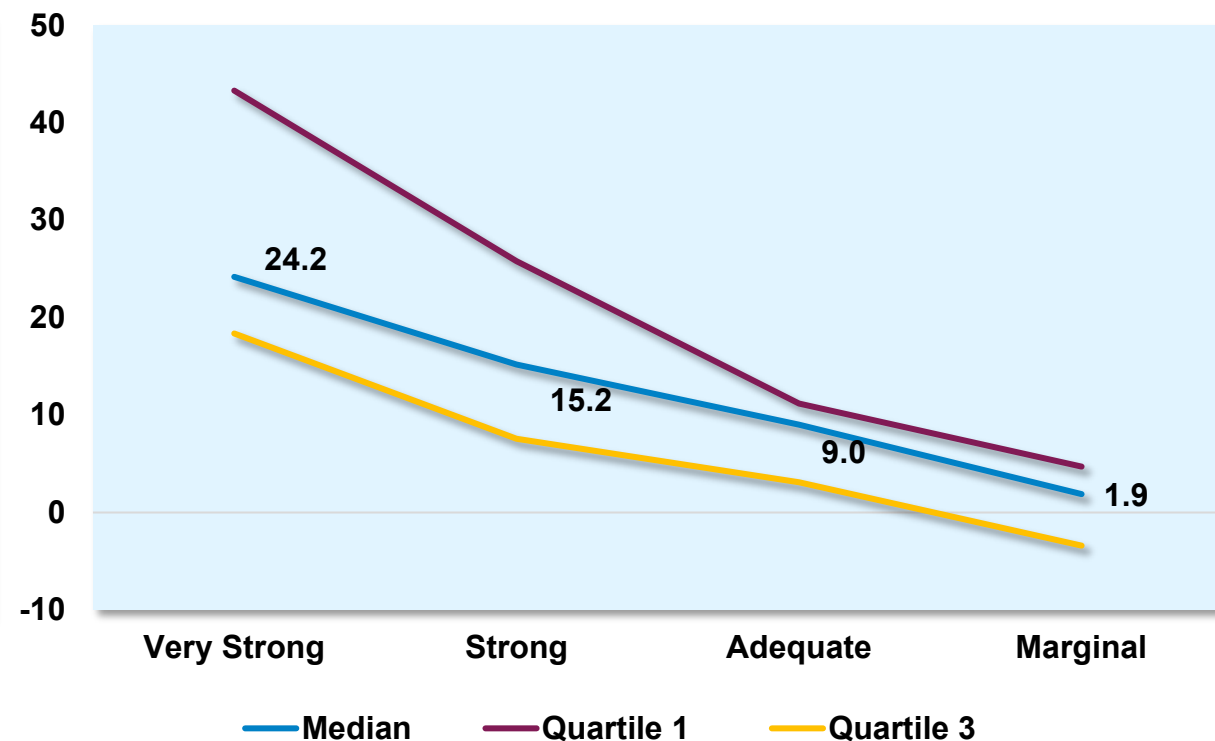


Operating Performance

10-Yr Avg Combined Ratio by Quartile

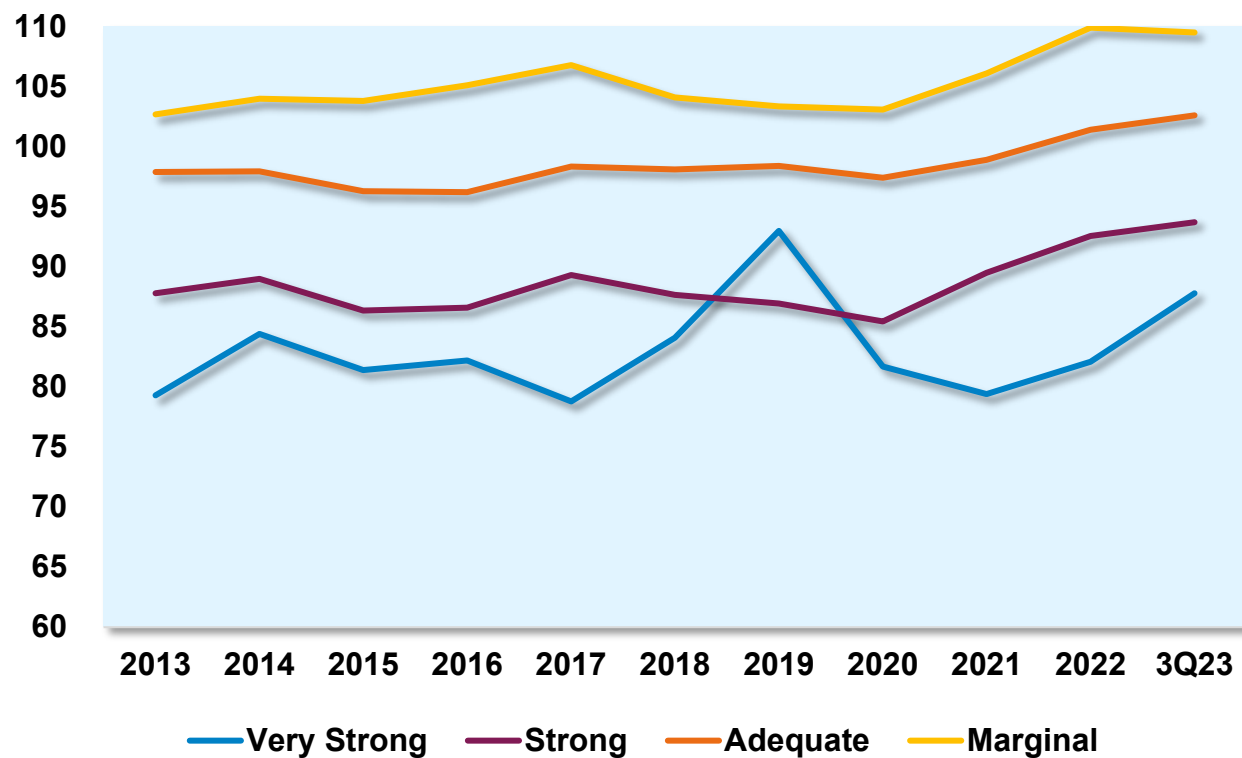


10-Yr ROR by Quartile (%)

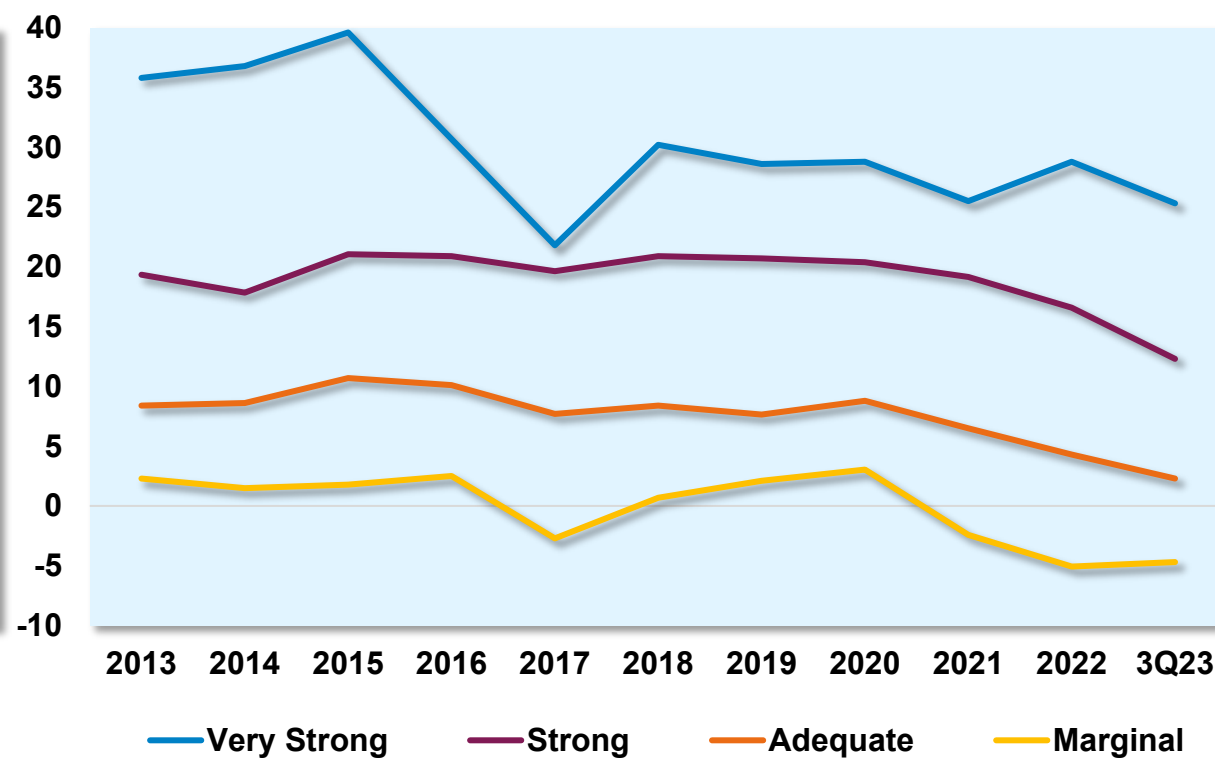


Operating Performance

Median Combined Ratio



Pre-tax ROR (%)

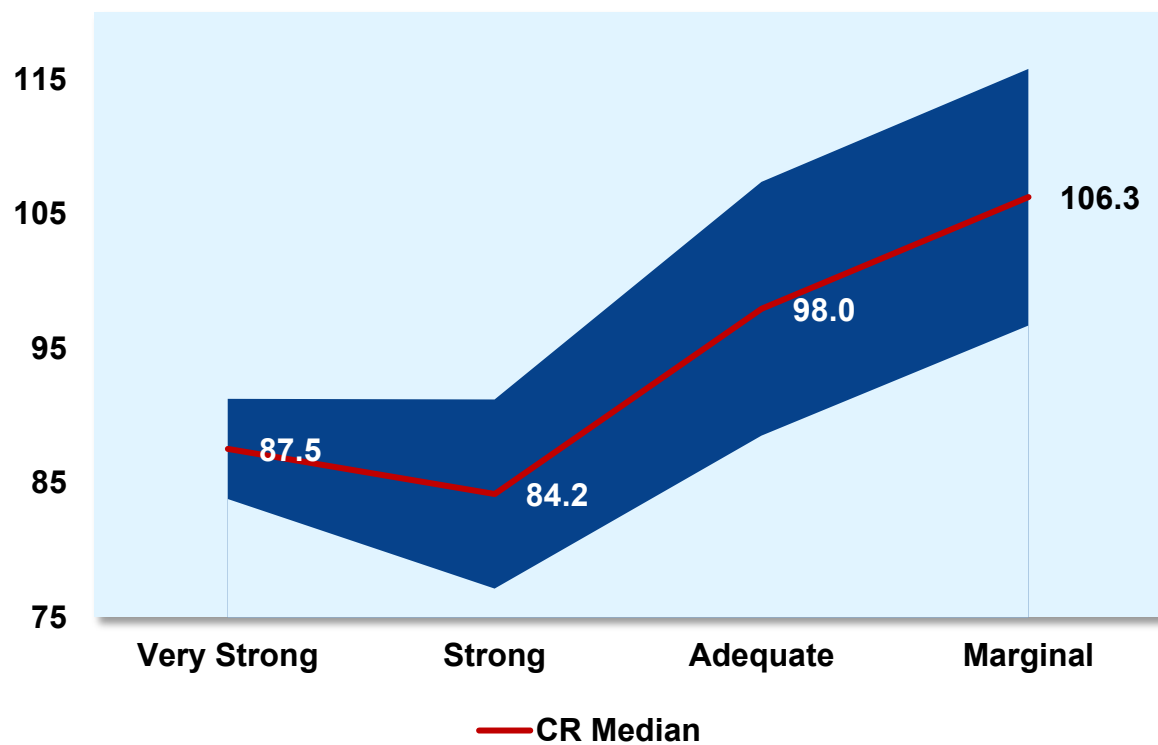


P/C Industry Combined Ratio Deciles

	Very Strong	Strong	Adequate	Marginal
10th	94.5	98.2	107.4	150.6
20th	93.1	95.0	102.2	116.4
30th	90.8	93.3	100.9	110.7
40th	85.3	91.4	99.4	108.7
50th	84.3	88.2	98.3	106.6
60th	69.8	84.6	97.0	105.3
70th	65.0	81.0	95.4	103.6
80th	60.1	77.0	92.7	102.4
90th	57.6	66.5	87.4	100.9

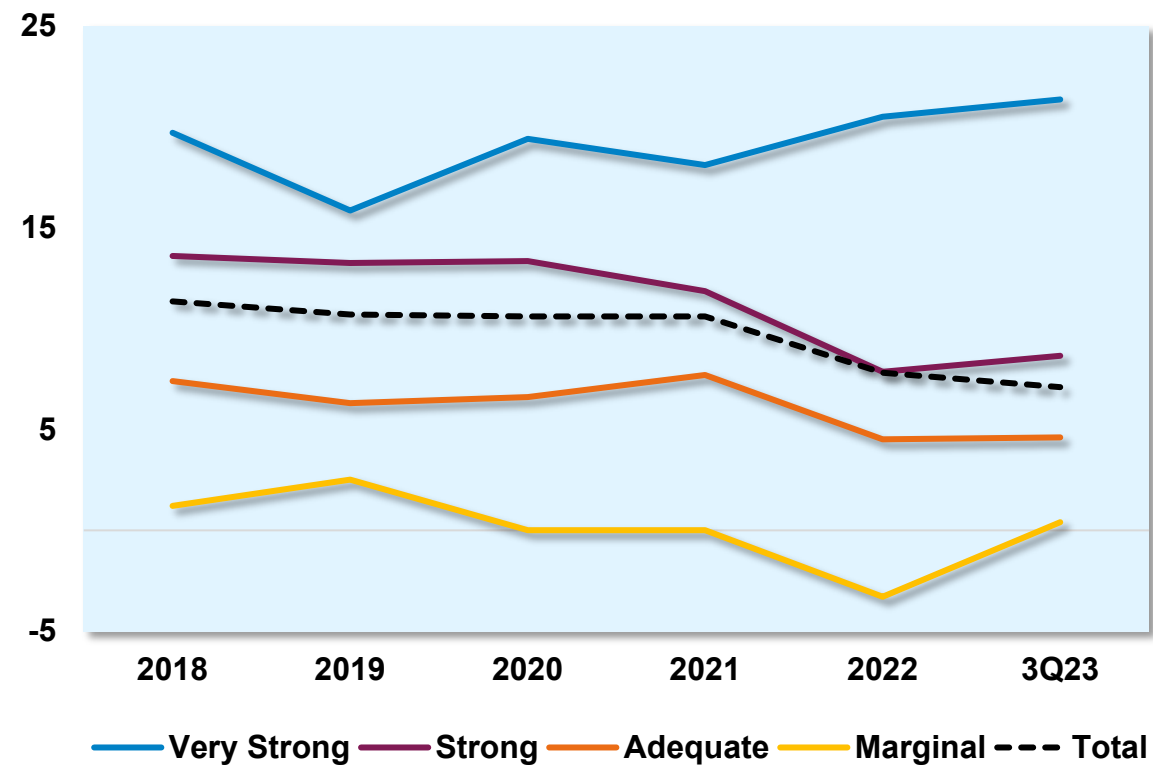
Trends by Composite – Commercial Casualty

Commercial Casualty 5-Yr Combined Ratio
Median and Standard Deviation



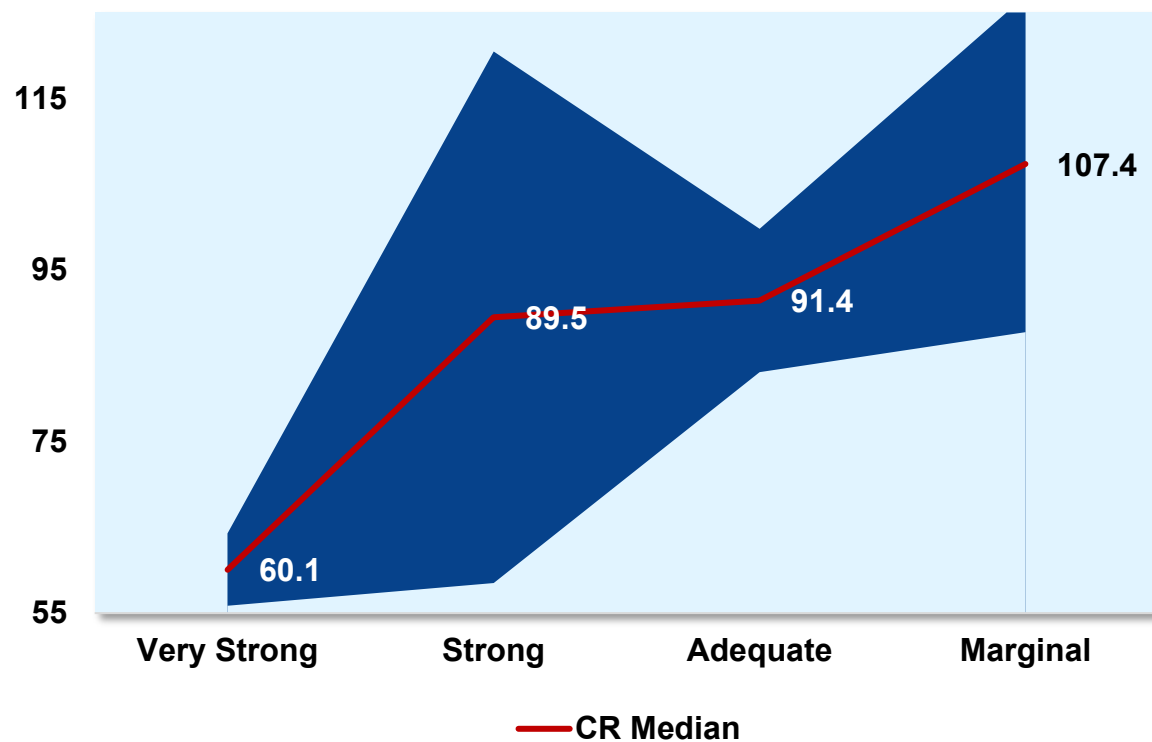
Shaded area represents average standard deviation of assessment category

Pre-tax ROR (%)



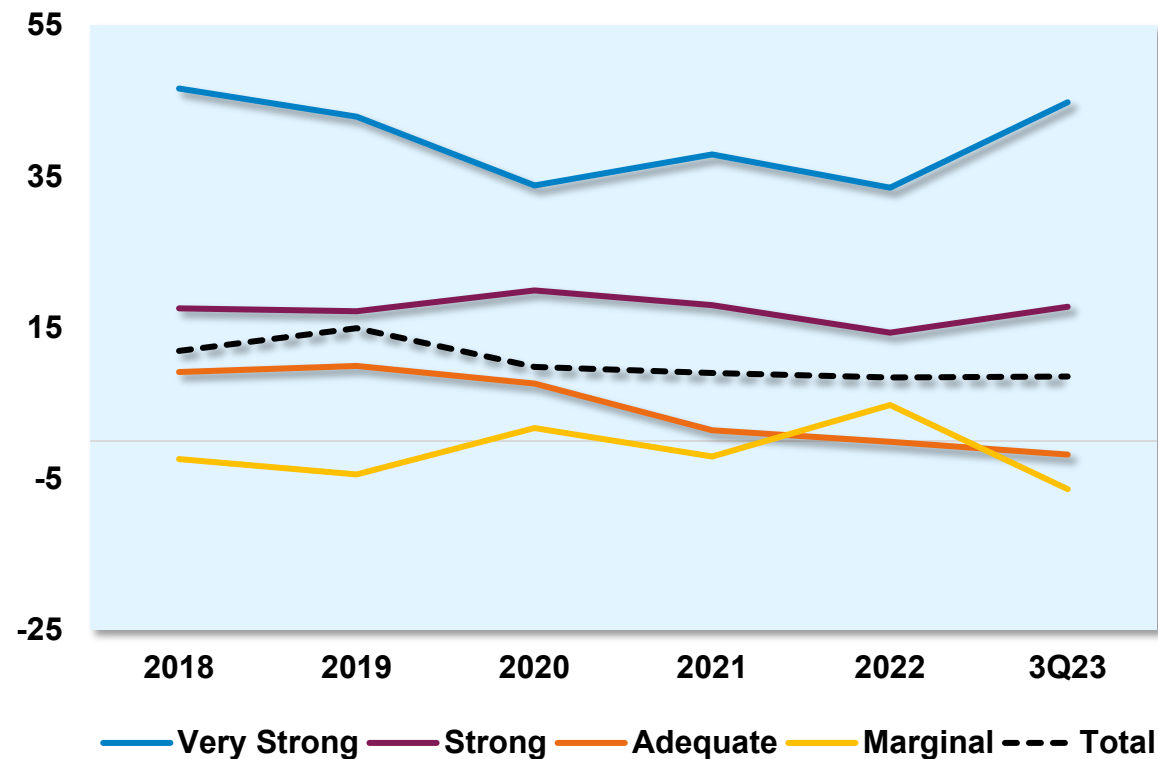
Trends by Composite – Commercial Property

Commercial Property 5-Yr Combined Ratio
Median and Standard Deviation



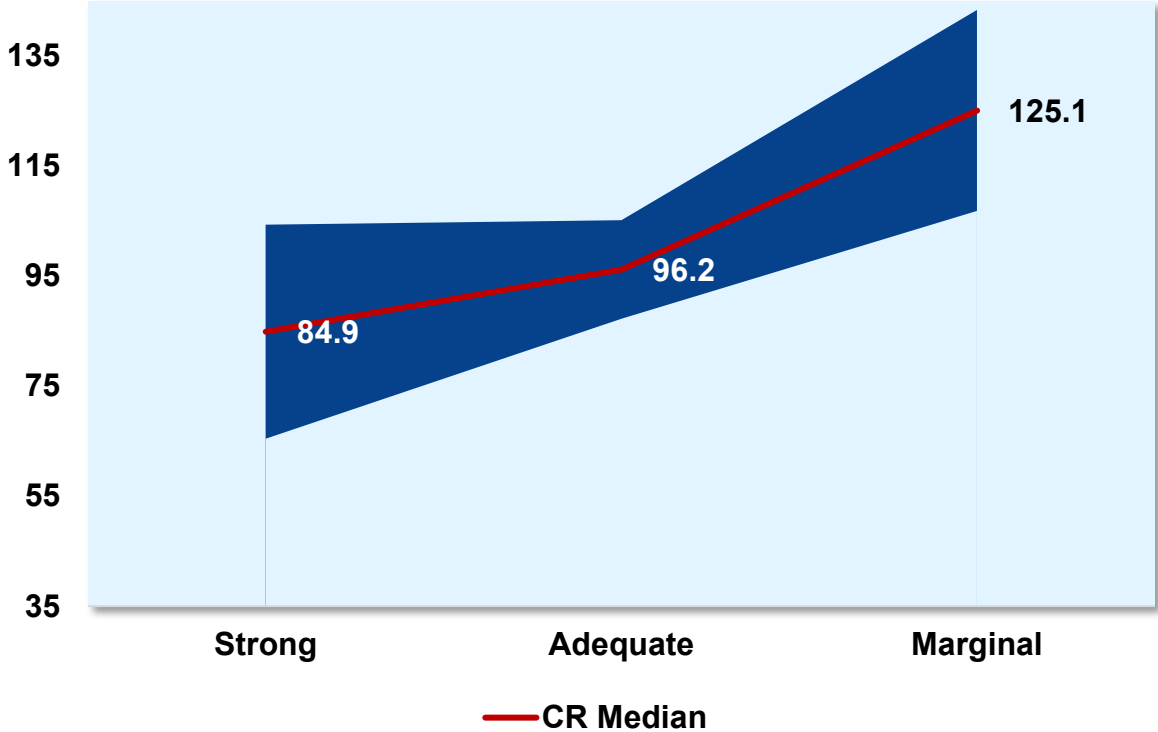
Shaded area represents average standard deviation of assessment category

Pre-tax ROR (%)



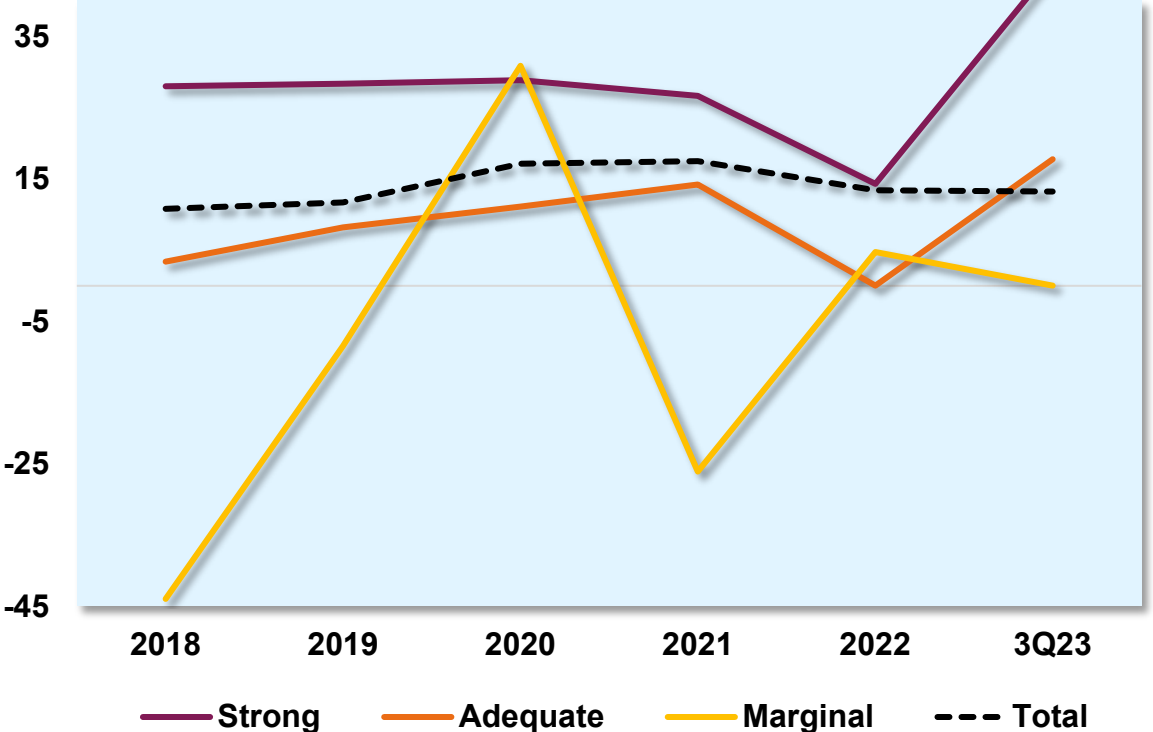
Trends by Composite – Commercial Auto

**Commercial Auto 5-Yr Combined Ratio
Median and Standard Deviation**



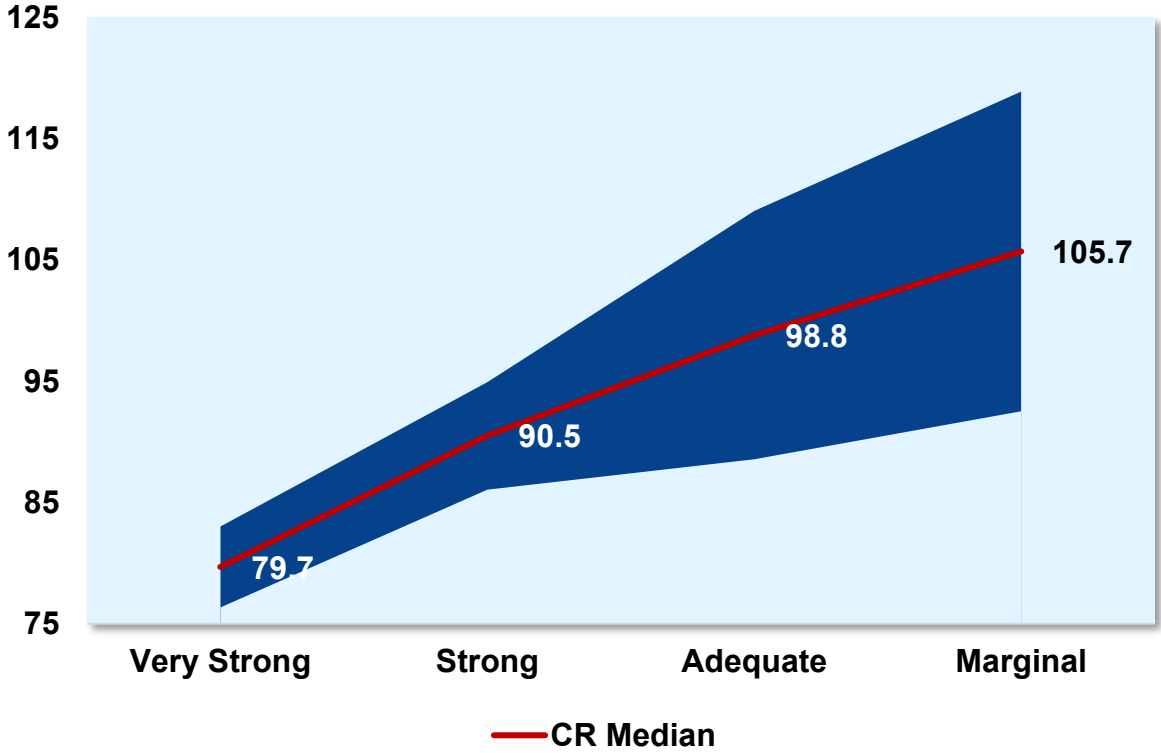
Shaded area represents average standard deviation of assessment category

Pre-tax ROR (%)



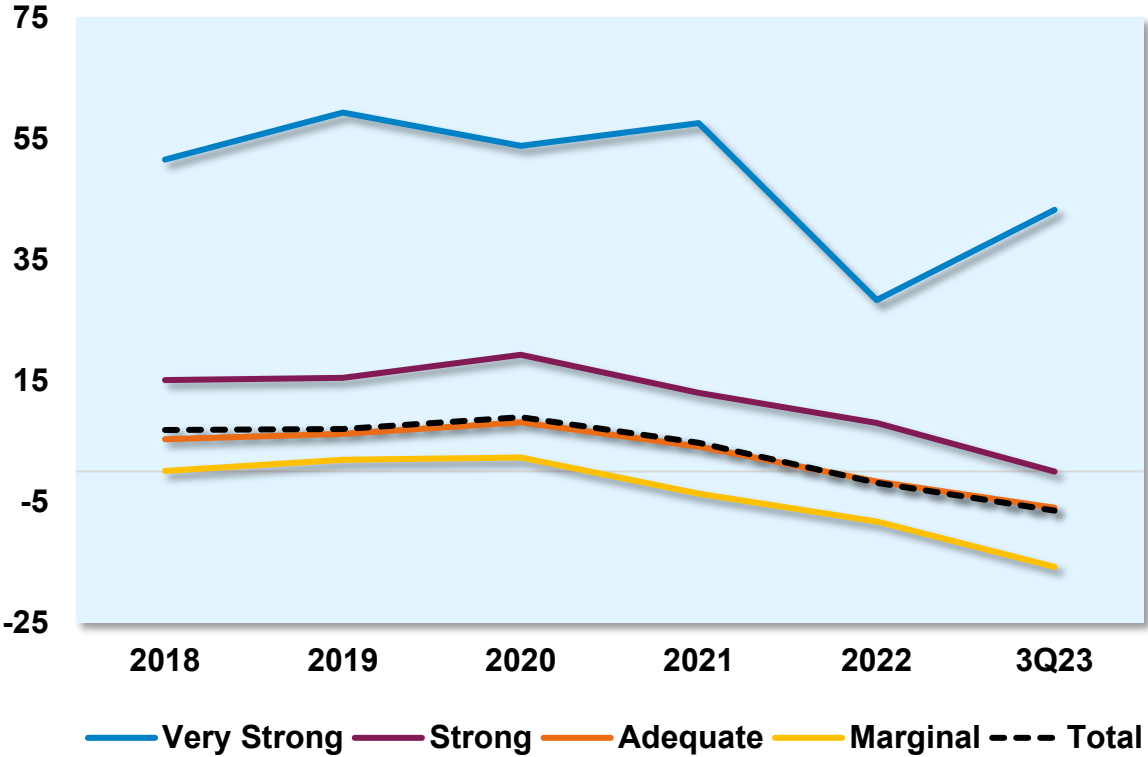
Trends by Composite – Personal Lines

Personal Lines 5-Yr Combined Ratio
Median and Standard Deviation



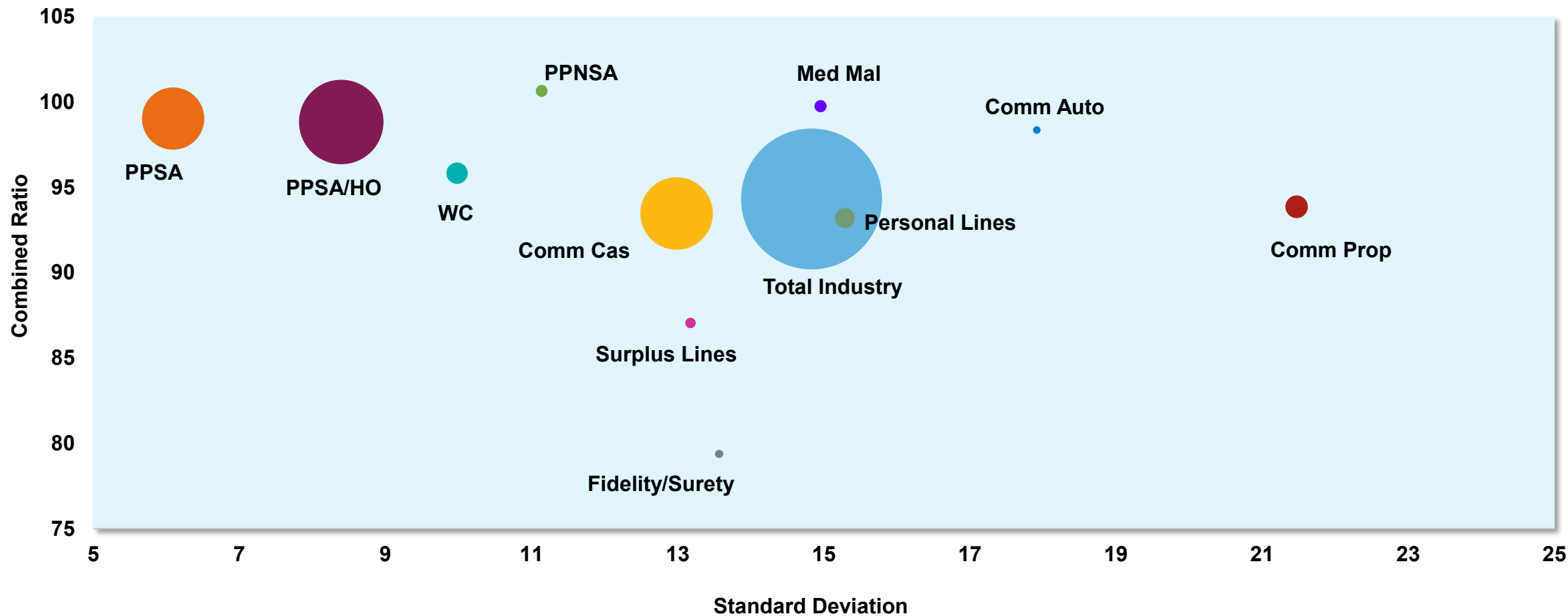
Shaded area represents average standard deviation of assessment category

Pre-tax ROR (%)



Operating Performance

10-Yr Combined Ratio Median vs 10-Yr Volatility



Polling Question #3

A homeowners insurance carrier that in 2023 recorded a combined ratio five points below the homeowners insurance composite will have its rating:

- a) Upgraded because it exceeded peers in one year
- b) Affirmed because one year ahead of benchmark doesn't mean anything
- c) Downgraded because the composite had a bad year
- d) More information is needed regarding sustainability and volatility of the company's historical results and credibility of future projections



Key Takeaways

Benchmark analysis is one of many factors in the analytical process

Supports a holistic view of a rated entity in appropriate context

Metrics for comparison include ratios, return measures, percentage change, leverage levels, and relative differences

Used across all building block assessments though focused in Balance Sheet Strength and Operating Performance

Q&A



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