

Note: This session has live audience polling

# Review & Preview

**AM Best's 31<sup>st</sup> Annual *Review & Preview* Conference**  
**March 18-20, 2024 • San Antonio, Texas**



# Life/Health Benchmarking

Wayne Kaminski – Associate Director, AM Best

Alan Murray – Director, AM Best

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



# Agenda

- **Balance Sheet Strength Refresher, per AM Best Credit Rating Methodology**
- **Overview of Balance Sheet Strength Assessments by Rating Level**
- **BCAR as Major Component of Balance Sheet Strength**
- **Characteristics of a Strong Balance Sheet Assessment**
- **Key Balance Sheet Strength Metrics and Overall BSS/ICR Level**
- **Company Structure in the Context of Balance Sheet Strength**
- **Key Takeaways and Q&A**

# **Balance Sheet Strength Refresher, per AM Best's Credit Rating Methodology**

# Balance Sheet Strength Assessment

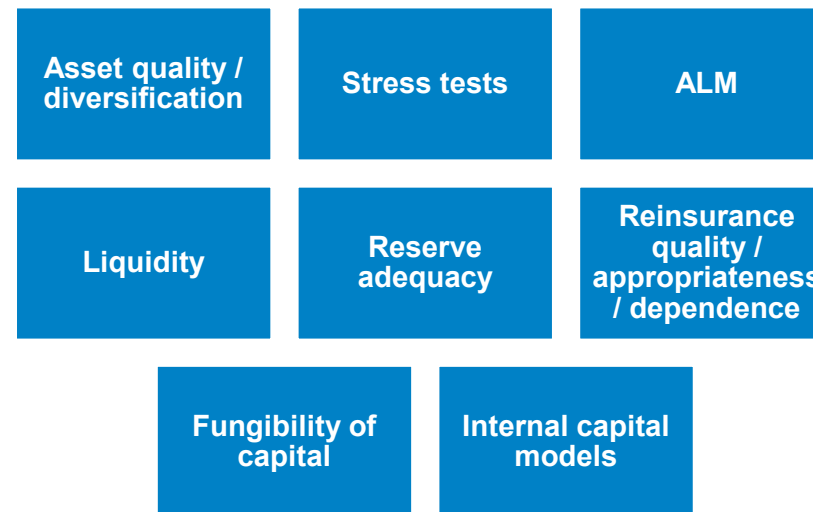


**Risk-Adjusted Capitalization, as measured by Best's Capital Adequacy Ratio (BCAR)**



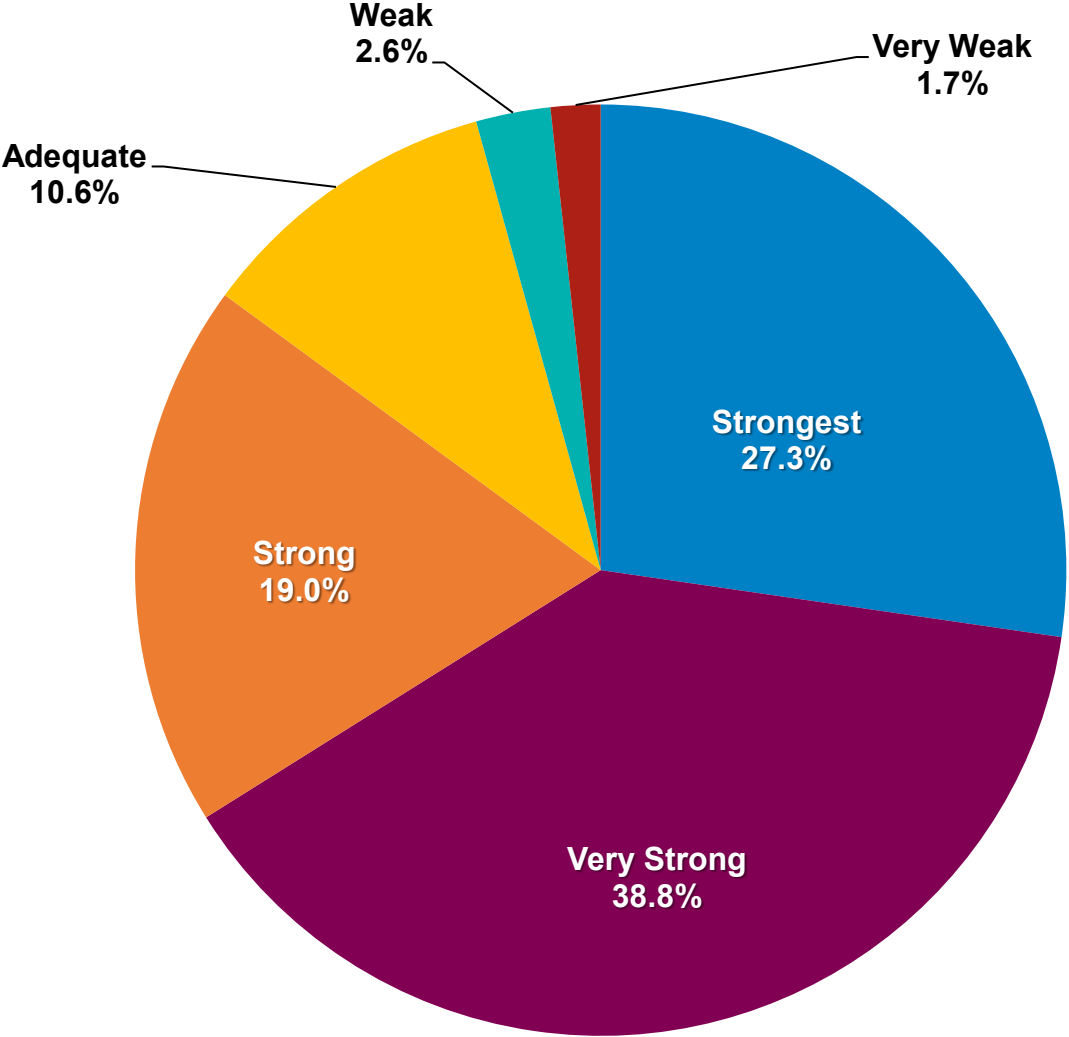
**Other Quantitative & Qualitative Considerations**

VaR Confidence Level (%)	BCAR	BCAR Assessment
99.6	> 25 at 99.6	Strongest
99.6	> 10 at 99.6 & ≤ 25 at 99.6	Very Strong
99.5	> 0 at 99.5 & ≤ 10 at 99.6	Strong
99	> 0 at 99 & ≤ 0 at 99.5	Adequate
95	> 0 at 95 & ≤ 0 at 99	Weak
95	≤ 0 at 95	Very Weak



Note: Typically, companies with <\$20 Million Capital & Surplus are not eligible for the strongest category.

# Distribution of Balance Sheet Strength Assessments



# Characteristics of Strongest Balance Sheet Strength

**Strongest risk-adjusted capitalization with minimal volatility**

**Financial flexibility and liquidity**

**High quality of assets and capital**

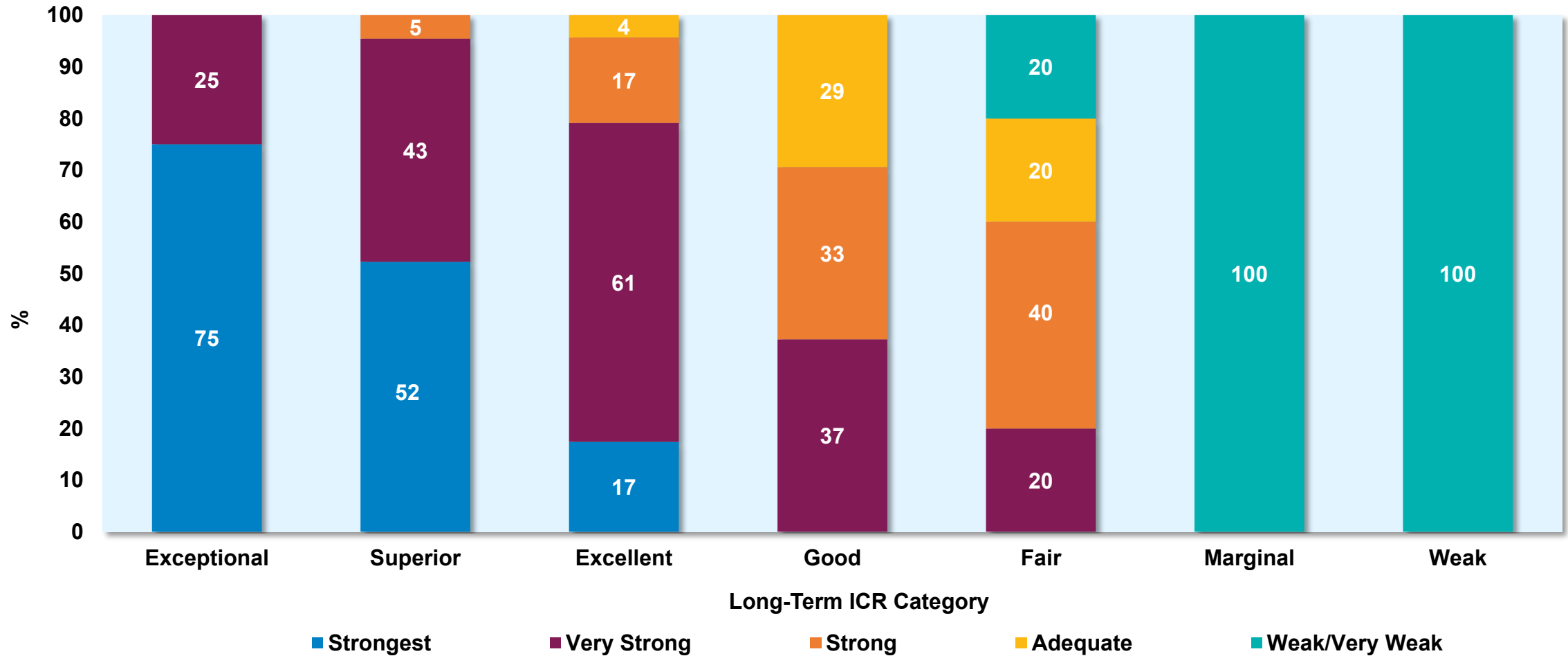
**Conservative reserve practices**

**Asset-liability matching**

**High-quality reinsurance and low dependence**



# Balance Sheet Strength Assessment a Key Determinant of ICR Rating Level



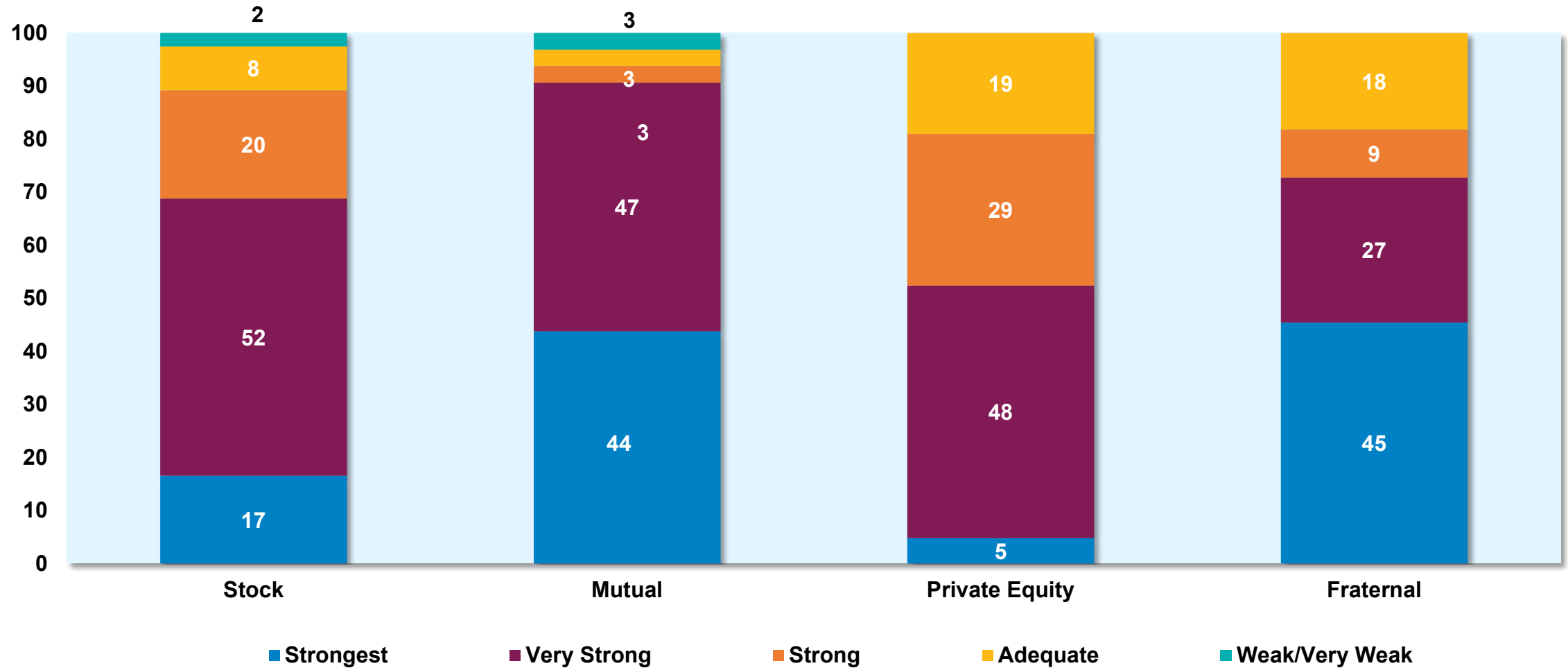
## Polling Question #1

Of the following organizational type choices, which leads this group with a “strongest balance sheet strength assessment”?

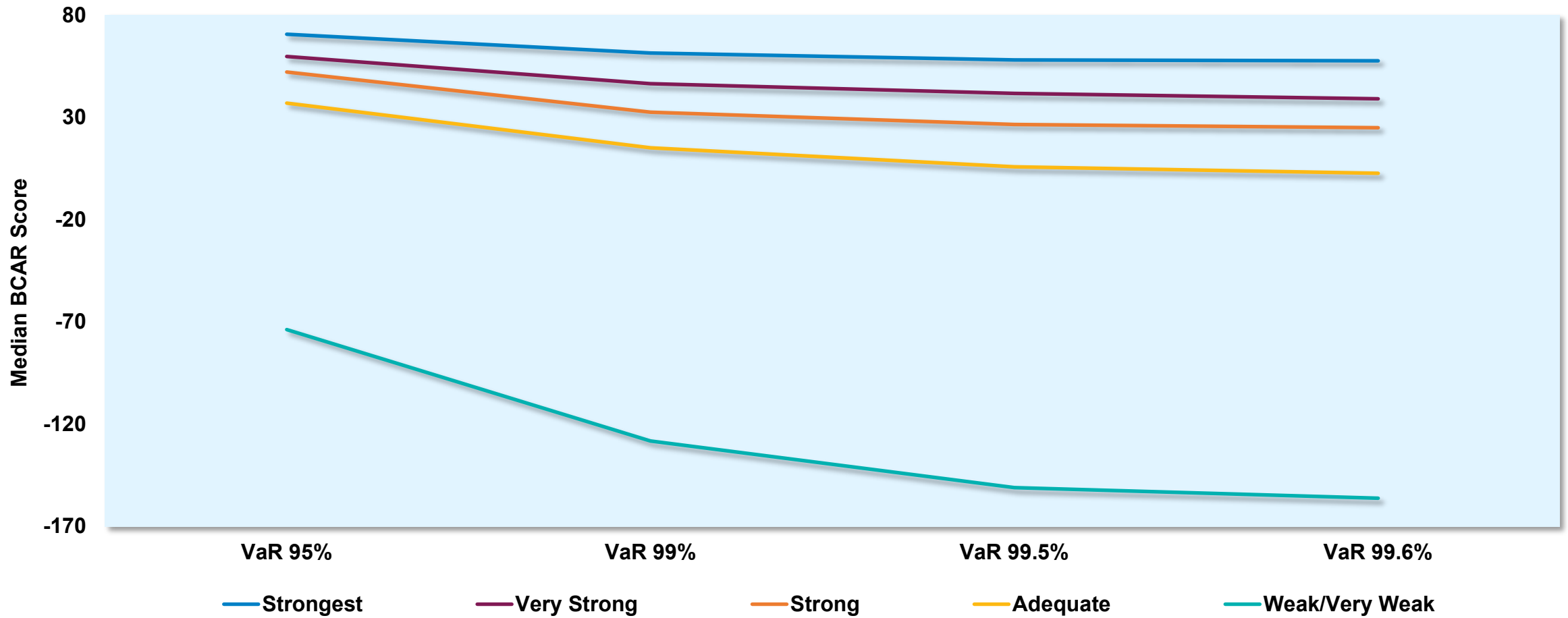
- a. Stock
- b. Mutual
- c. Private equity
- d. Fraternal



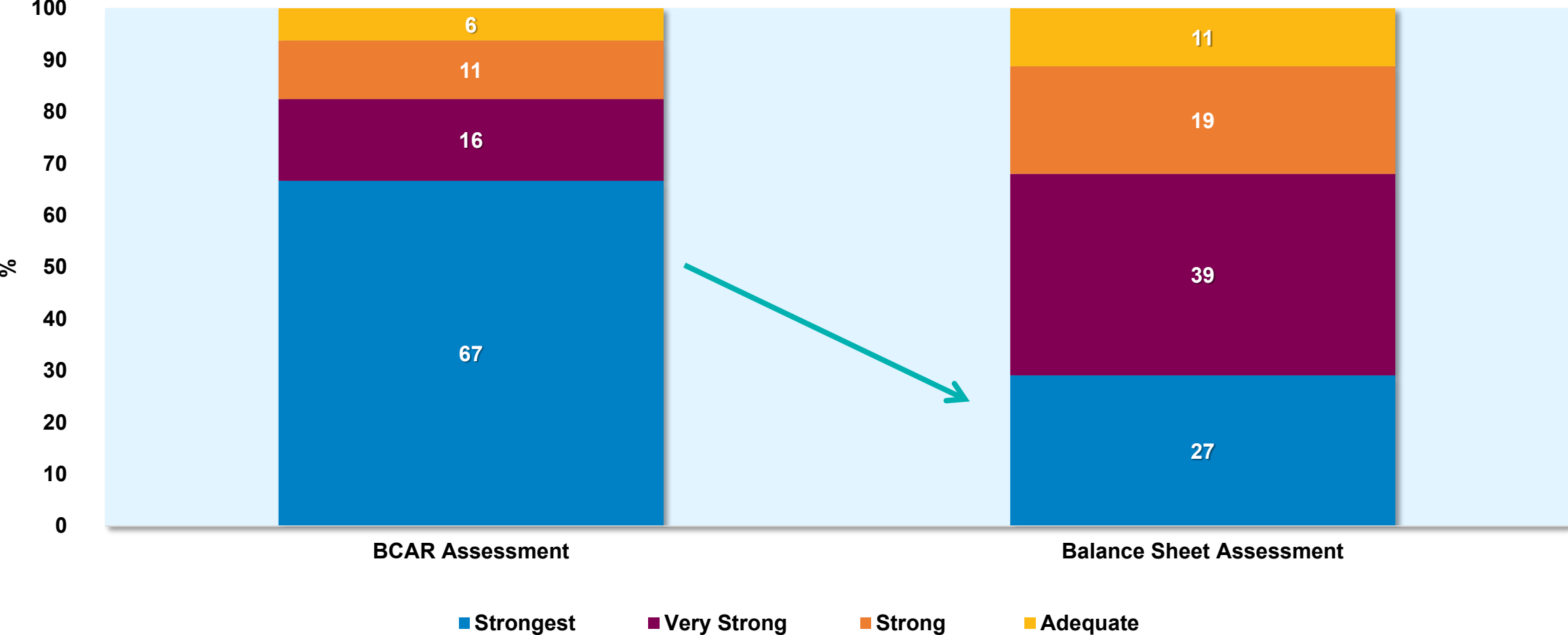
# Org Structure Has Implications for BSS Assessments



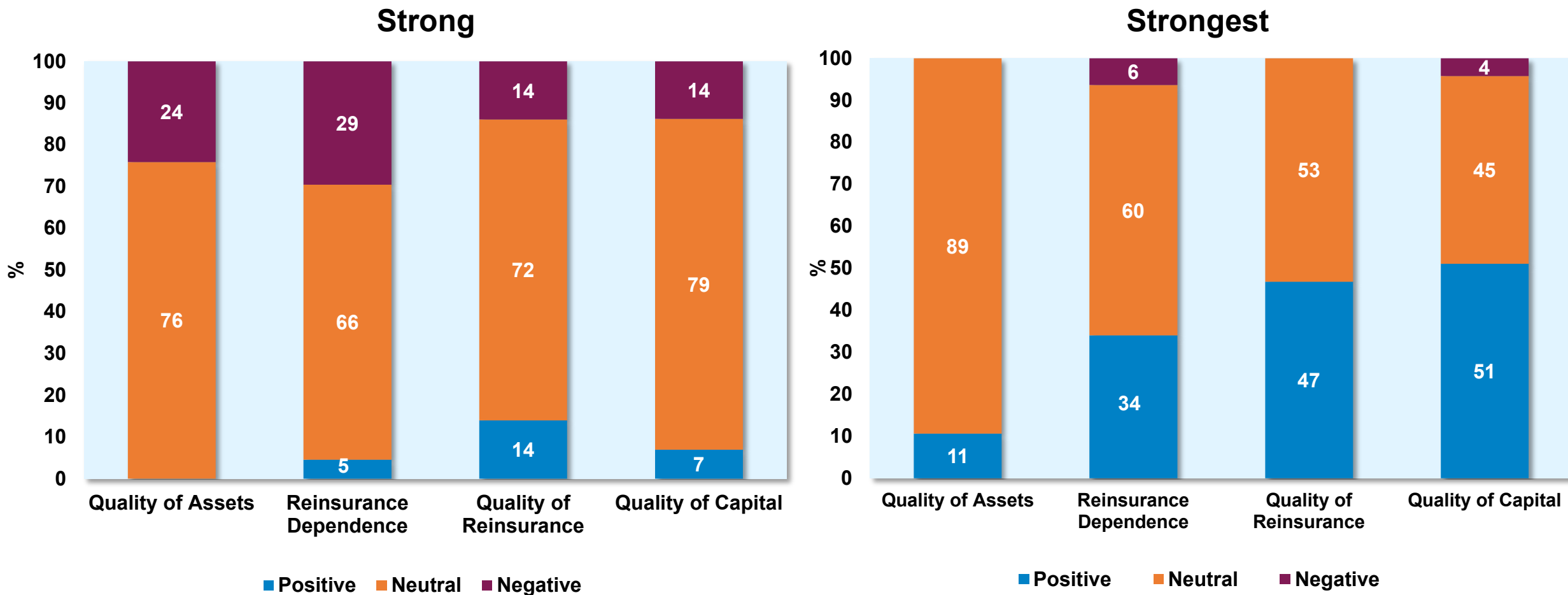
# Median BCAR Scores by Balance Sheet Strength



# BCAR ≠ Balance Sheet Strength Assessment

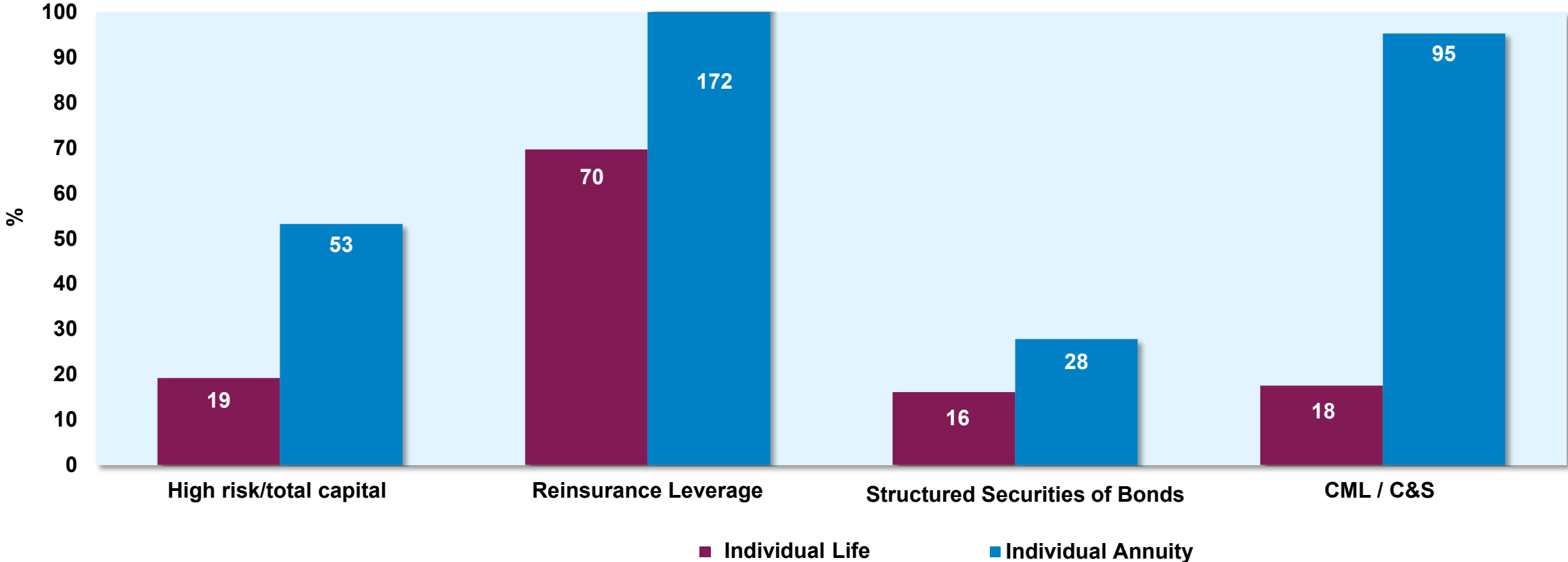


# Characteristics of Strongest and Strong Balance Sheet Strength Assessments



# Need to Achieve Interest Rate Spreads Results in Higher-Risk Assets and Reinsurance Leverage for Annuity Writers

Key Financial Metrics for Life and Annuity Insurers



# **A Look at Key Investment Metrics by Rating Level and Organizational Type**



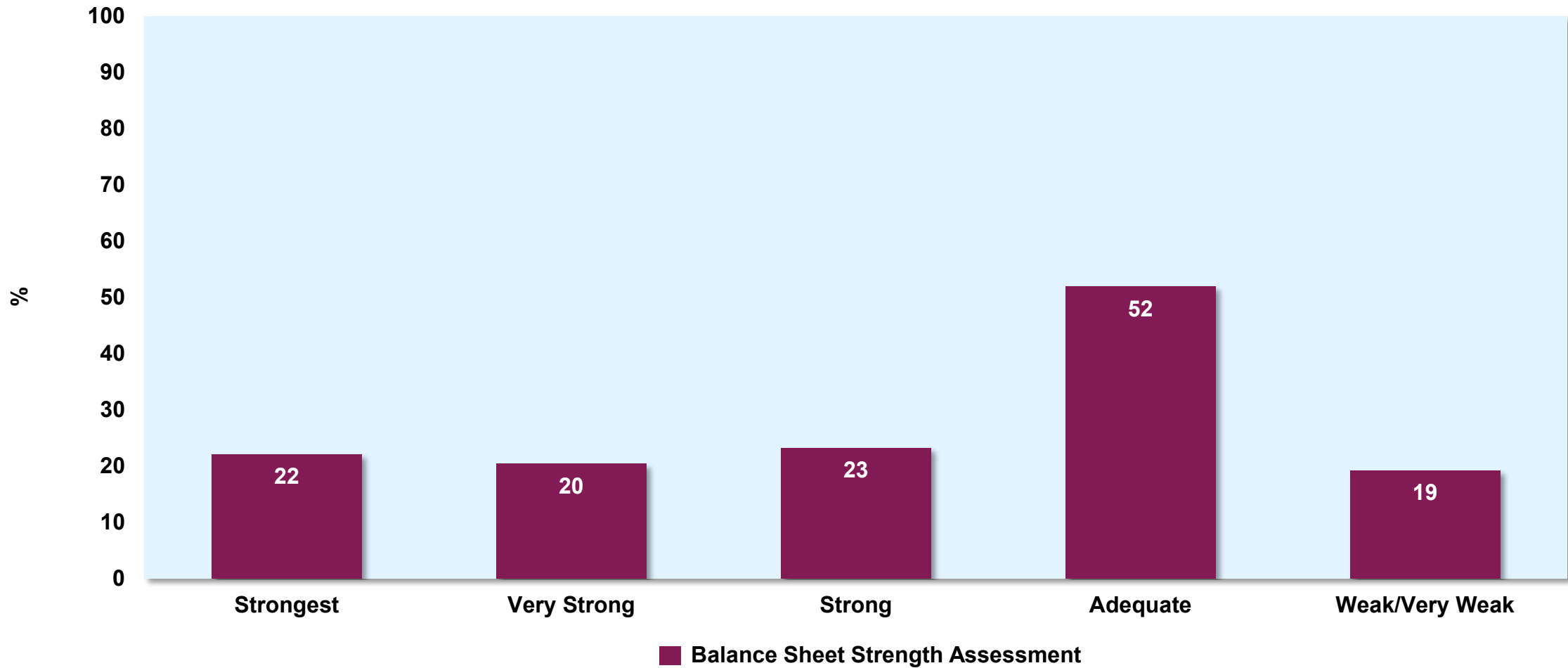
## Polling Question #2

Which balance sheet metric is most likely to worsen in 2024?

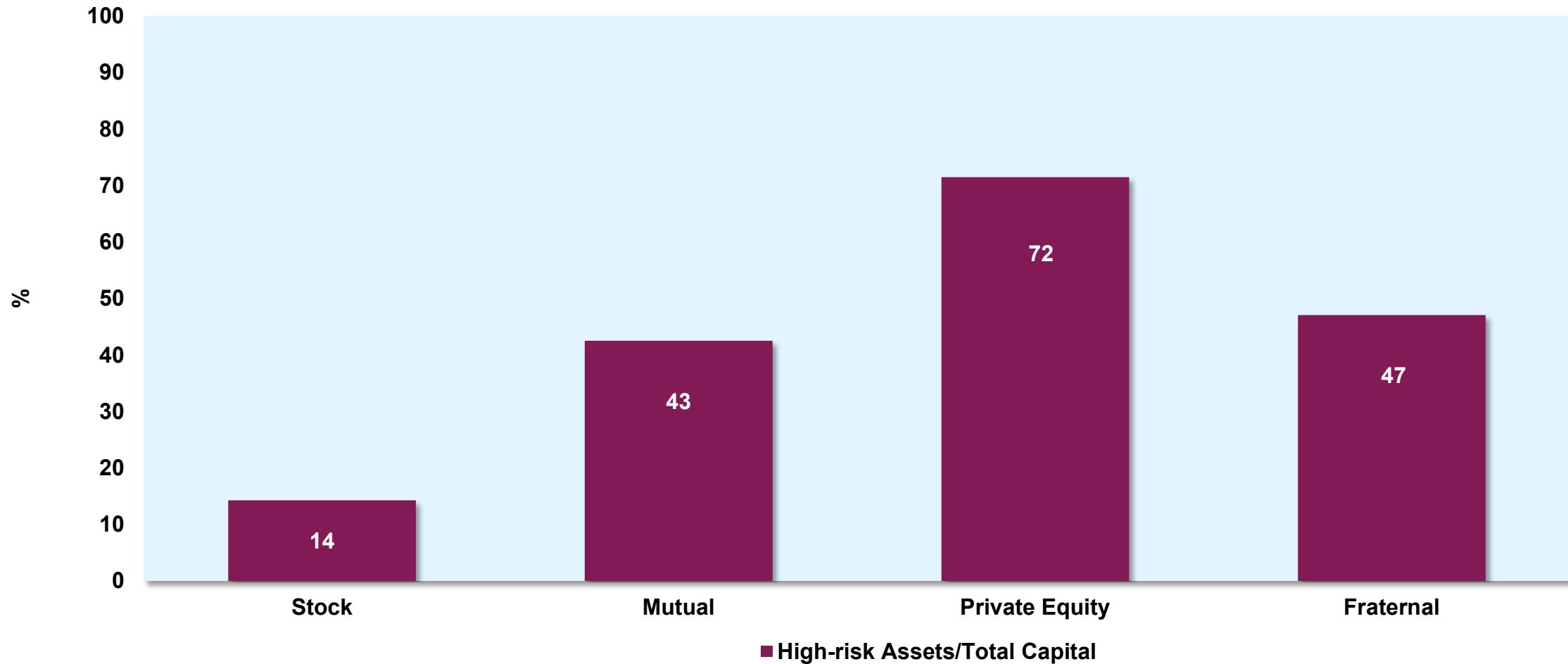
- a) Financial leverage
- b) Reinsurance leverage
- c) High-risk assets/capital & surplus
- d) Asset/liability matching



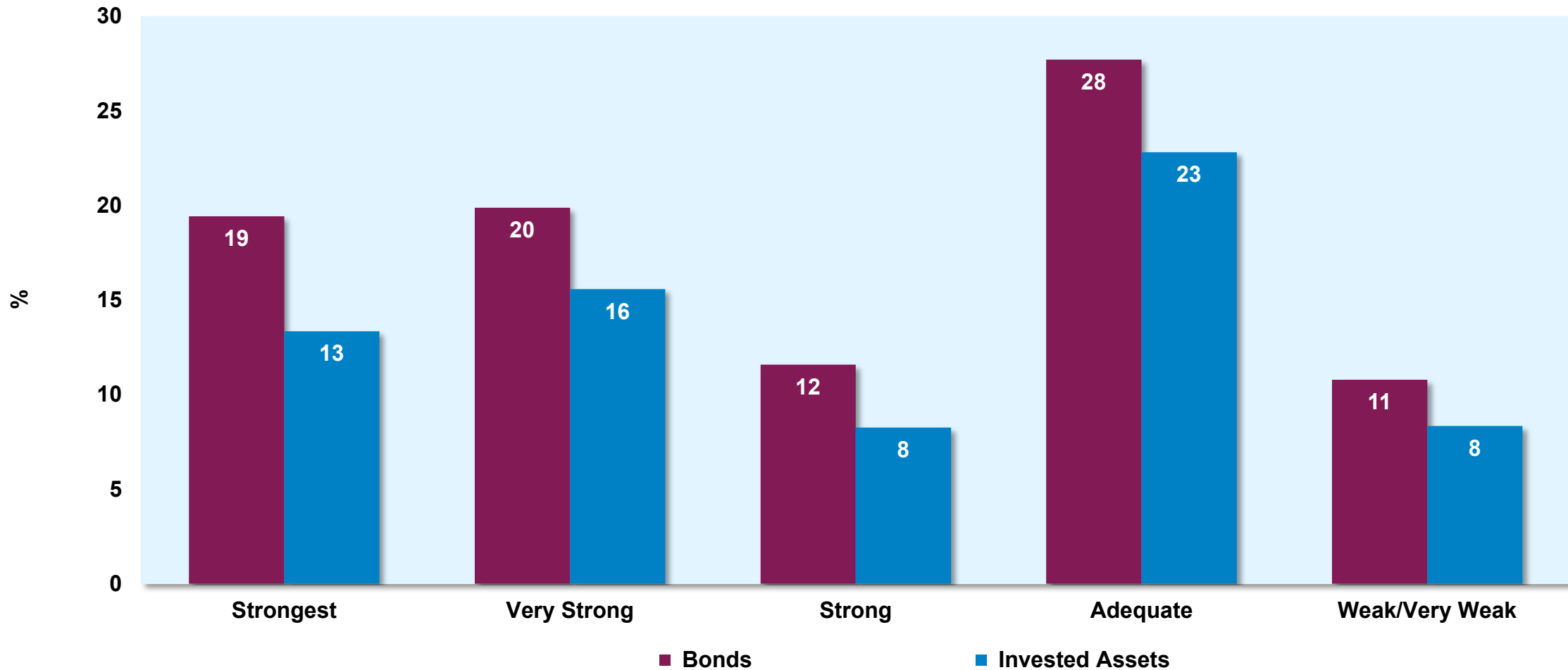
# Asset Quality Tends To Be a Key BSS Constraint at the Adequate Level Only



# Greater Allocation to High-Risk Assets by PE-Owned Insurers



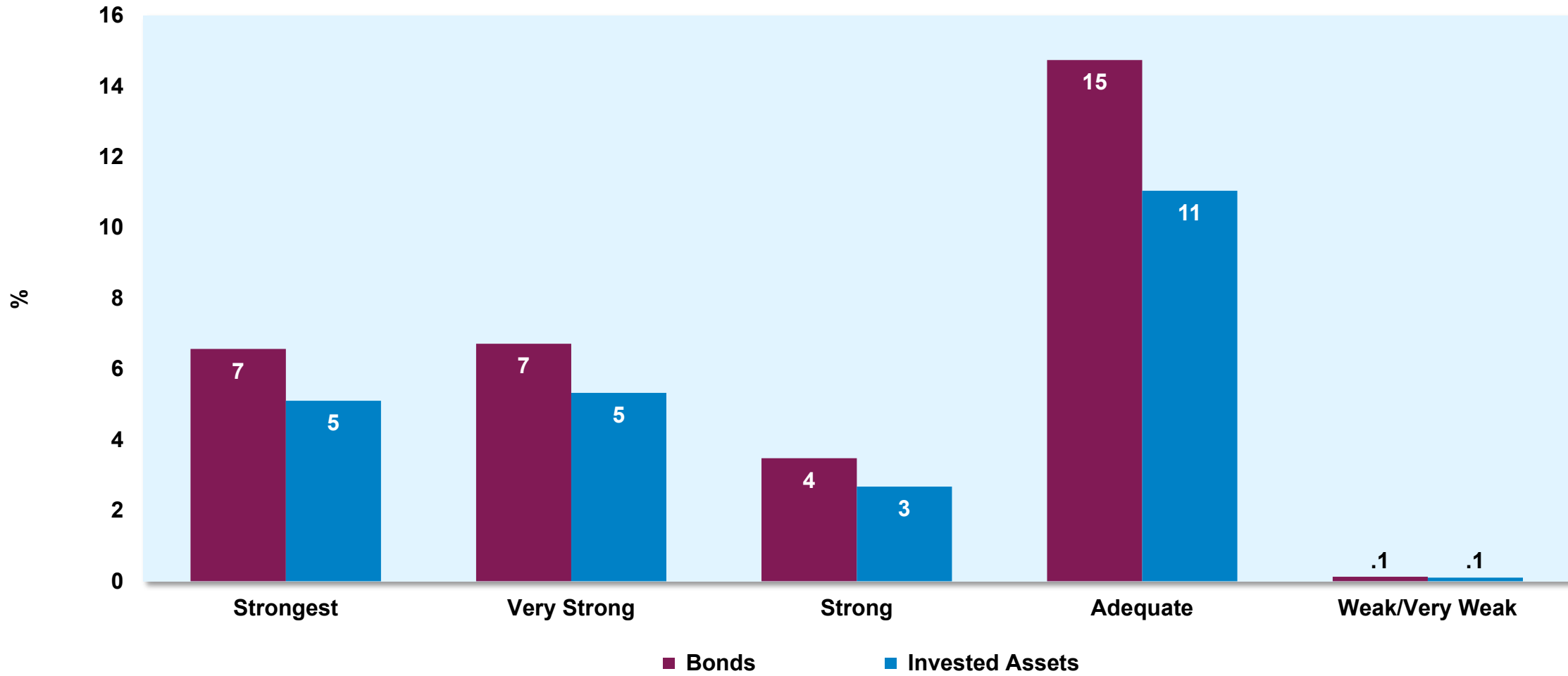
# Higher Levels of Structured Securities Can Be a Constraint



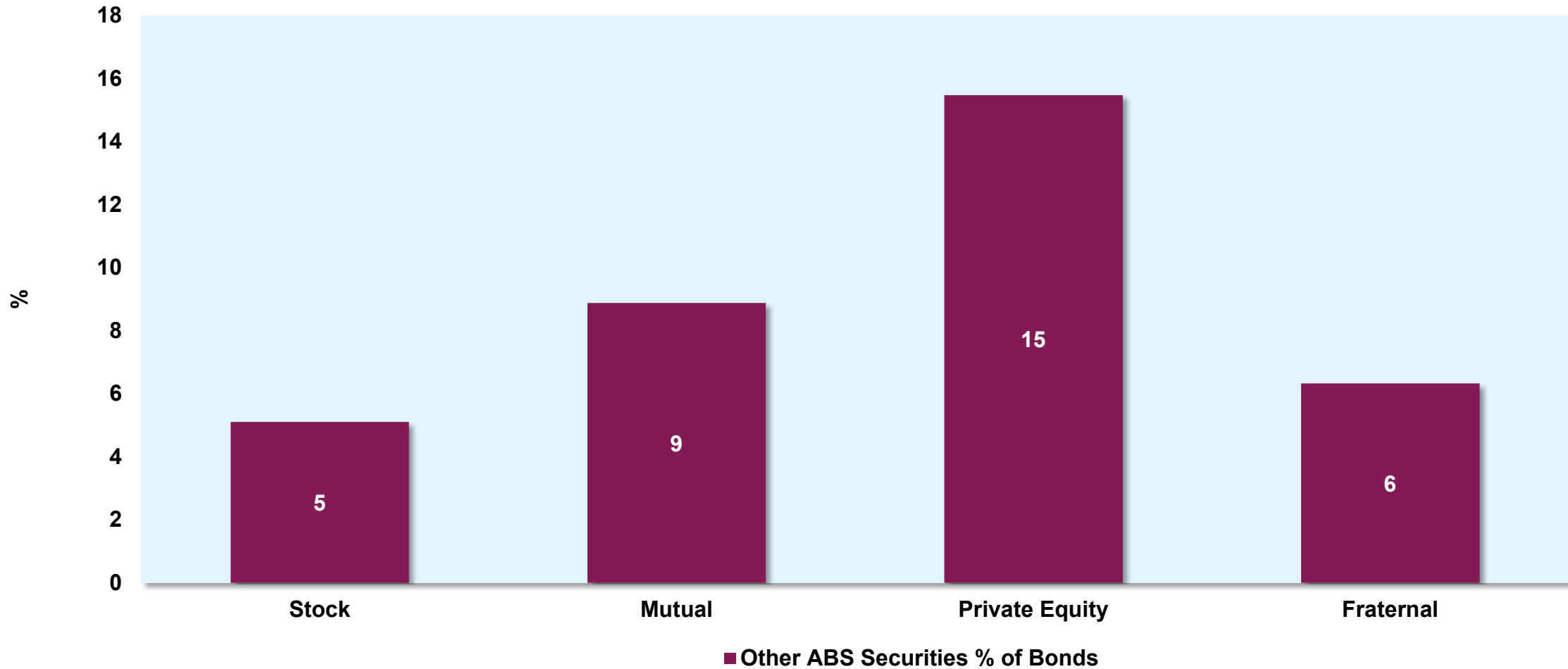
# PE-Owned Insurers Are Attracted to Yields Offered by Structured Investments



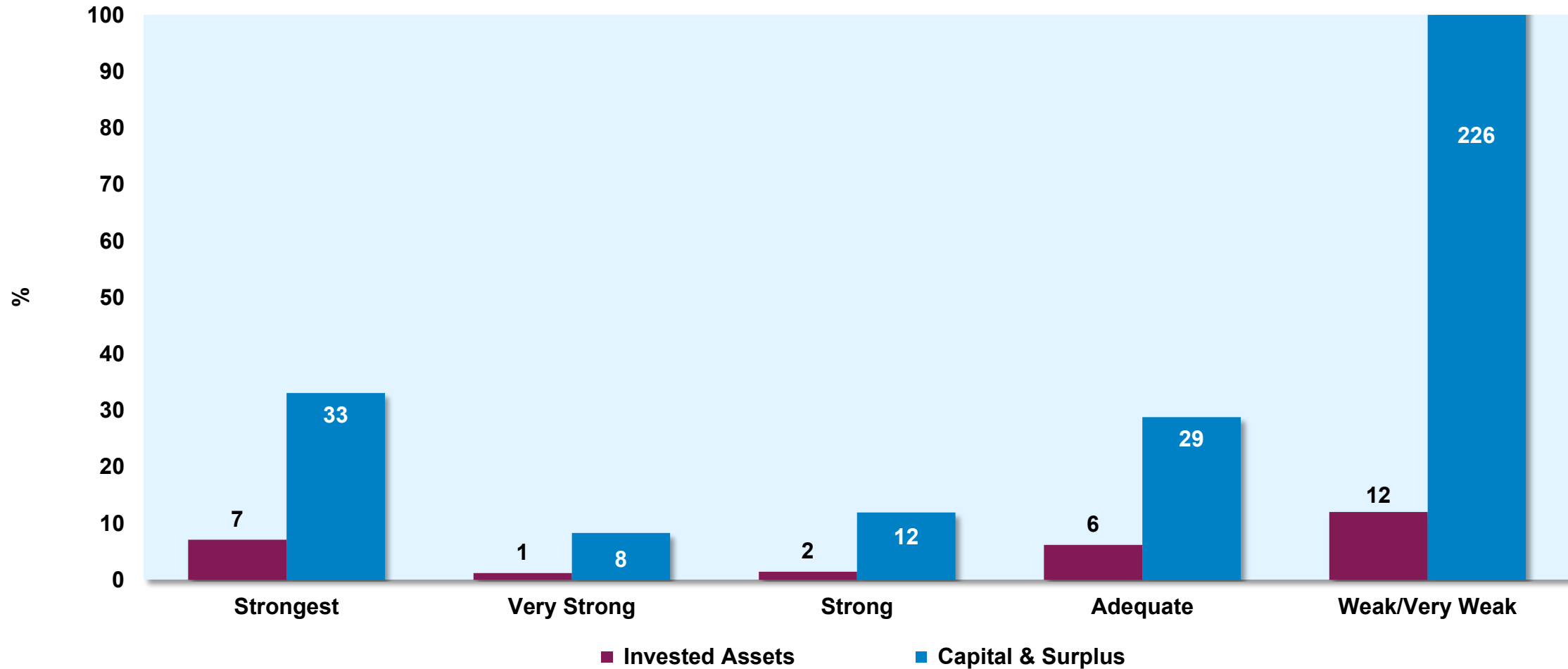
## Other ABS – Primarily Collateralized Loan Obligations



# Other ABS by Org Type

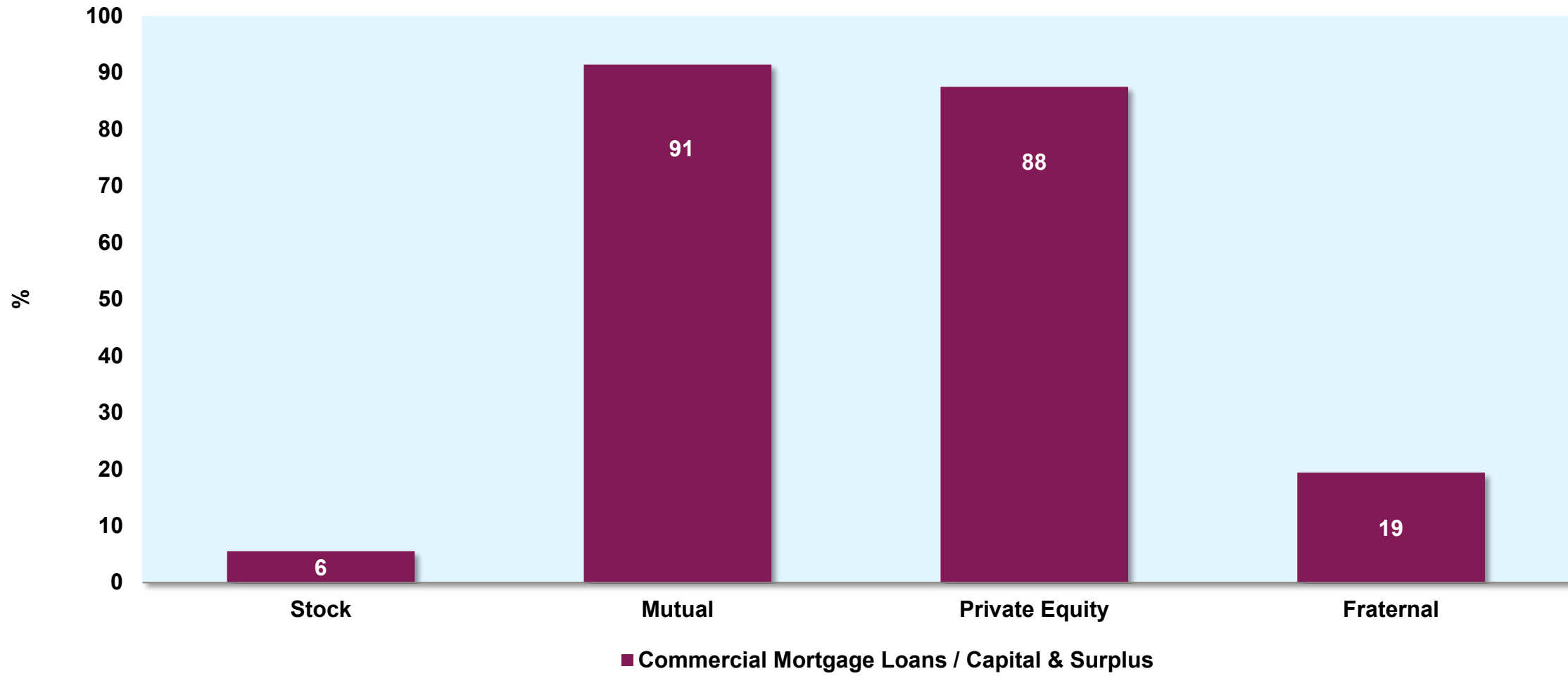


# Commercial Mortgages Can Increase Liquidity Concerns



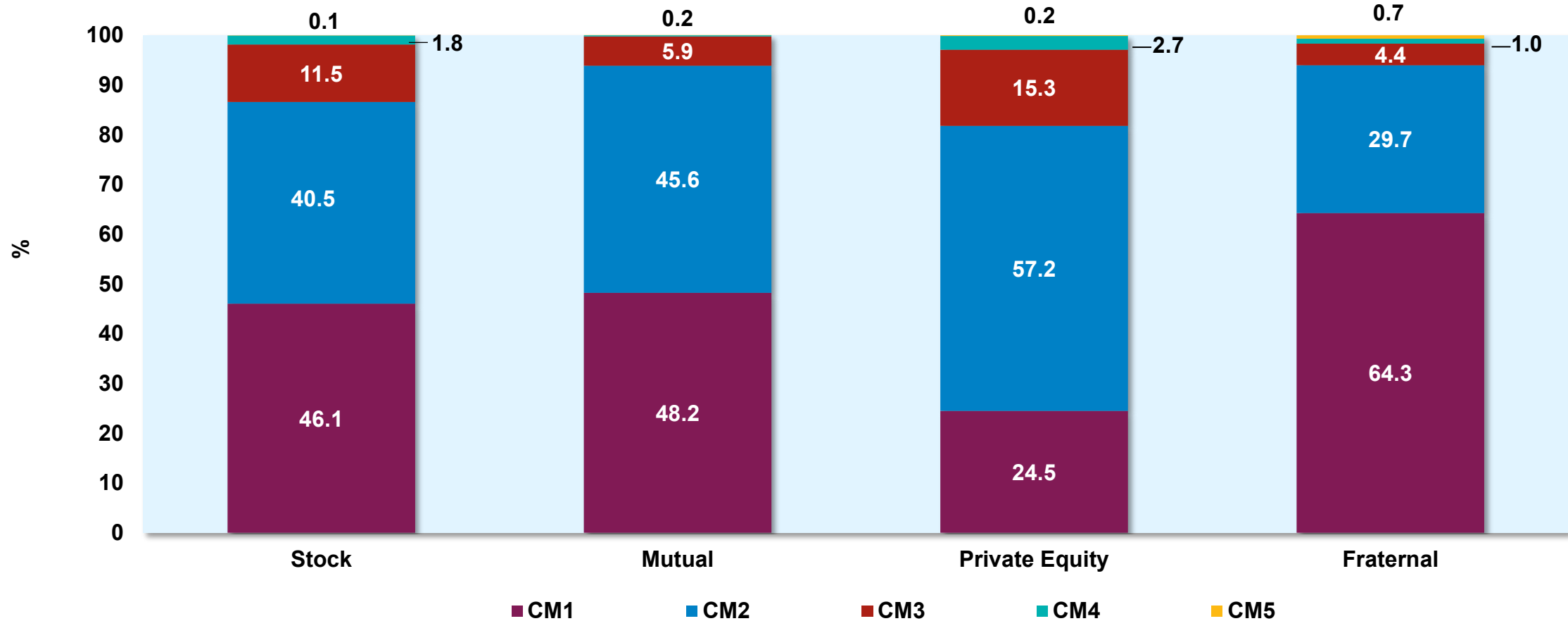


# Commercial Mortgage Allocation Varies by Organizational Type

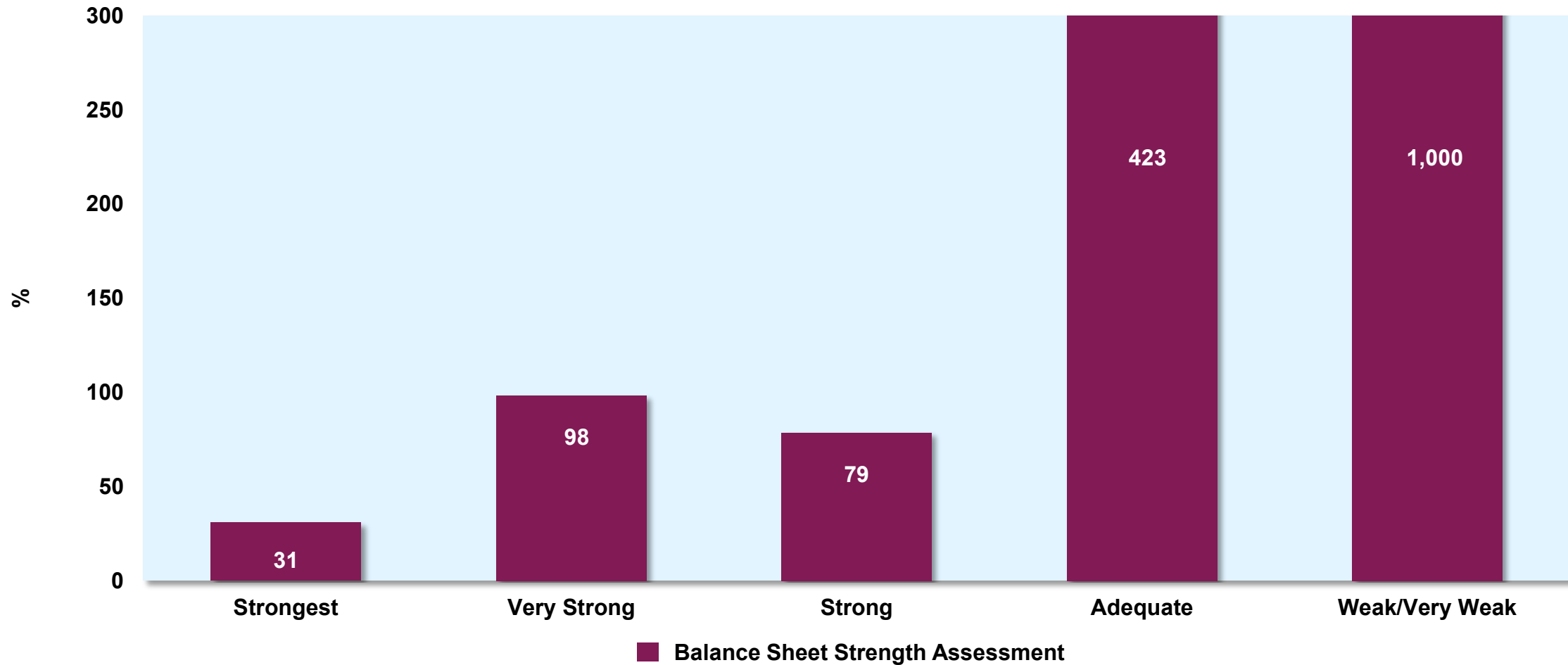


# Majority of L/H Insurers Maintain High Quality CML Portfolio

## Quality of CMLs in Good Standing by Organizational Type



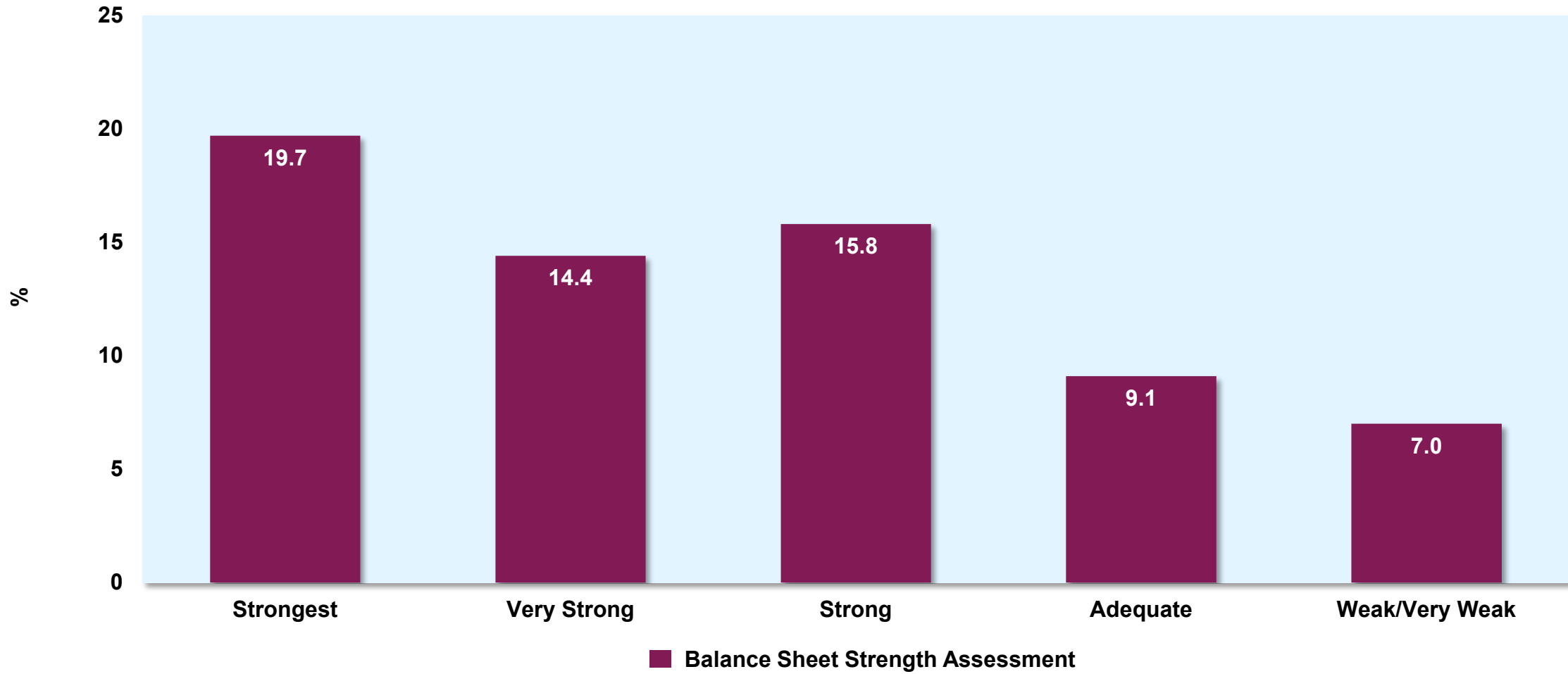
# Reinsurance Leverage Correlates Strongly to BSS at Weaker Levels



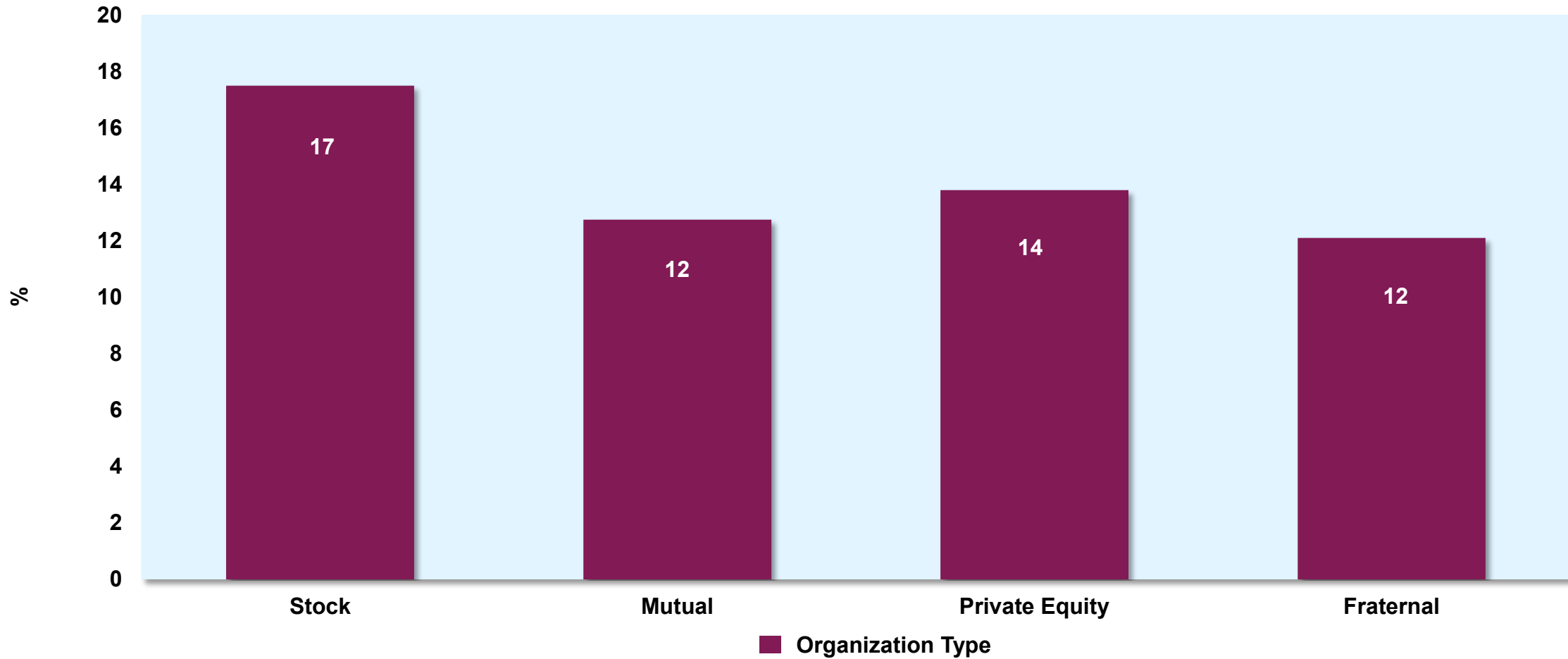
# Reinsurance Leverage Is Higher for PE-Owned Insurers



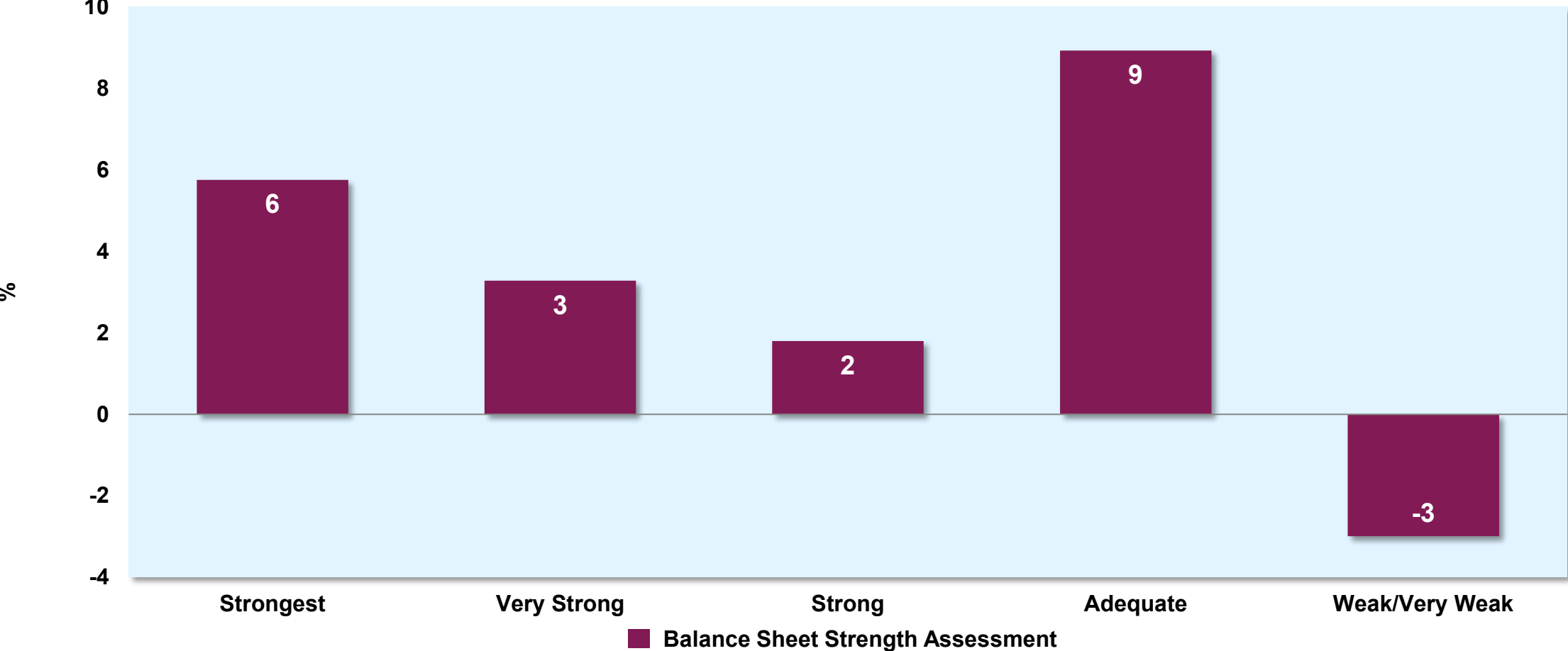
## C&S to Liabilities for L/H Insurers Correlates to BSS



# C&S to Liabilities by Organizational Type



# Growth in C&S Generally Correlates to BSS



# Key Takeaways

- AM Best uses several benchmarks including segment, ICR, org type and peer groups
- Certain organizational types differentiate themselves on key BSS measures
- Certain key balance sheet metrics are more strongly correlated to a stronger balance sheet strength assessment
- Analytical judgement is part of the process



# Q&A



© AM Best Company, Inc. (AMB) and/or its licensors and affiliates. All rights reserved. ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY COPYRIGHT LAW AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT AMB's PRIOR WRITTEN CONSENT. All information contained herein is obtained by AMB from sources believed by it to be accurate and reliable. AMB does not audit or otherwise independently verify the accuracy or reliability of information received or otherwise used and therefore all information contained herein is provided "AS IS" without warranty of any kind. Under no circumstances shall AMB have any liability to any person or entity for (a) any loss or damage in whole or in part caused by, resulting from, or relating to, any error (negligent or otherwise) or other circumstance or contingency within or outside the control of AMB or any of its directors, officers, employees or agents in connection with the procurement, collection, compilation, analysis, interpretation, communication, publication or delivery of any such information, or (b) any direct, indirect, special, consequential, compensatory or incidental damages whatsoever (including without limitation, lost profits), even if AMB is advised in advance of the possibility of such damages, resulting from the use of or inability to use, any such information. The credit ratings, financial reporting analysis, projections, and other observations, if any, constituting part of the information contained herein are, and must be construed solely as, statements of opinion and not statements of fact or recommendations to purchase, 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. Credit risk is the risk that an entity may not meet its contractual, financial obligations as they come due. Credit ratings do not address any other risk, including but not limited to, liquidity risk, market value risk or price volatility of rated securities. AMB is not an investment advisor and does not offer consulting or advisory services, nor does the company or its rating analysts offer any form of structuring or financial advice. NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY AMB IN ANY FORM OR MANNER WHATSOEVER. Each credit rating or other opinion must be weighed solely as one factor in any investment or purchasing decision made by or on behalf of any user of the information contained herein, and each such user must accordingly make its own study and evaluation of each security or other financial obligation and of each issuer and guarantor of, and each provider of credit support for, each security or other financial obligation that it may consider purchasing, holding or selling.