



# A.M. Best

**IUMI**

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*The Insurance Information Source*



# Overview

Post WTC the insurance and reinsurance industry has been characterised by:

- Rate strengthening in most classes of business
- Substantial capital raising activity

But.....

- Overall financial strength has decreased
- Closure, Market and LOB withdrawals





# Marine Insurance – Rate Strengthening

Two important questions that will shape the future:

- Are increases in marine rates sufficient?
- Are marine rates likely to peak?





# Marine Insurance - Capital Providers

- Overall caution. Clear limit to willingness to restore lost capital
- Substantial returns demanded to compensate for “extra risk”
- Increased focus on risk adjusted return on capital





# Is the cost of capital raising?

- UNDERWRITING RESULTS have been consistently poor influenced by:
  - ✓ inadequate rates and high claim frequency
  - ✓ the overall creditworthiness of reinsurers have deteriorated making “receivables” a more sensitive issue
- INVESTMENT RETURNS have been declining influenced by:
  - ✓ a low rate environment
  - ✓ weakened equity markets



# Quality Underwriting

- Guidelines for underwriting
- Condition surveying
- Auditing of company and fleet
- Review of claims records





# Loss Prevention

- Claims analyses
- Loss prevention circulars and publications
- Training and seminars
- Safety improvements
- Contingency training





# Brief summary of A.M. Best's risk based capital model (BCAR)

Calculate Total Adjusted Capital (TAC) by adjusting reported capital for:

- Accounting issues
- Use of debt
- Catastrophe exposure

Calculate Net Required Capital (NRC) by calculating capital needed to support:

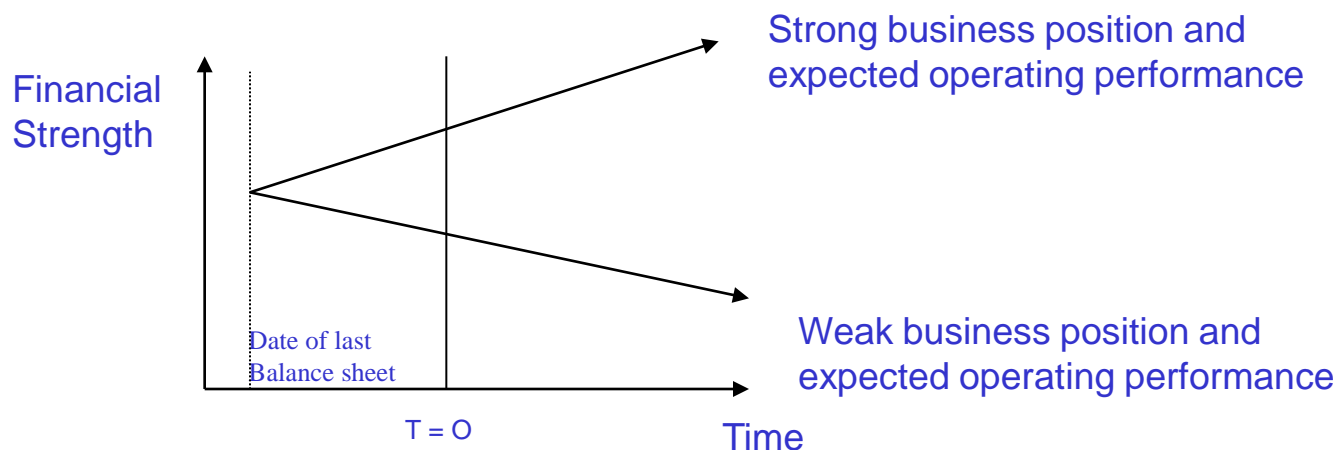
- Premium Risk (by-line)
- Reserve Risk (by-line)
- Asset risk (by type)
- Adjust the number for diversification and co-variance





# Best's Risk Based Capital Analysis

## BCAR v the rating process



- The BCAR factors future expectations (adverse development, expected losses etc). But fundamentally it is a function of the last Balance Sheet
- Here we look at future expected Operating Performance and Business Position to set the context for how the balance sheet is likely to develop

