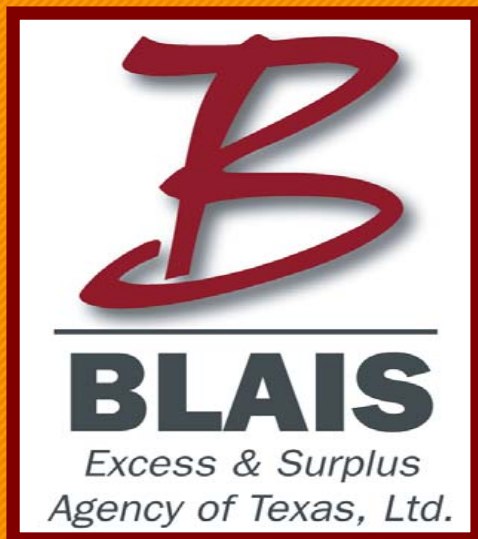


*A webinar created for
RiskProNet members*

THE FINANCIAL RATINGS OF INSURANCE
COMPANIES

*A REVIEW OF THE METHODOLOGY OF
THE RATINGS & ISSUES*



Presented by:

BLAIS EXCESS & SURPLUS AGENCY OF TEXAS, LTD.

www.blaisexcess.com

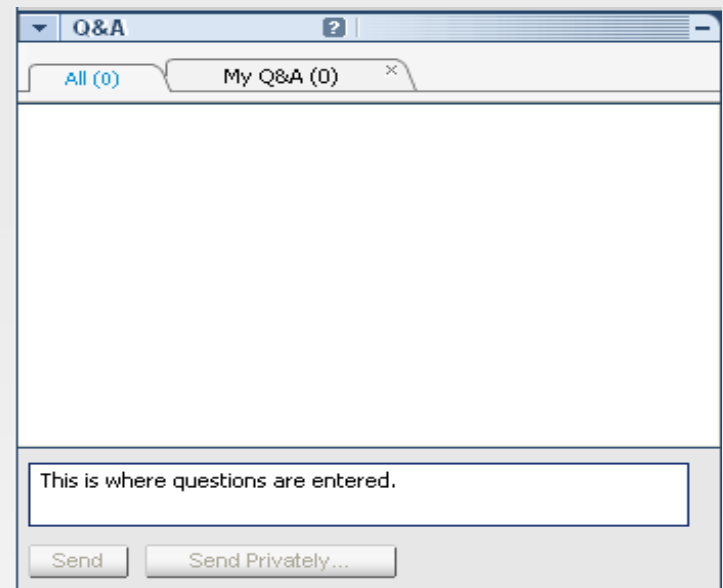
November 18, 2010

FINANCIAL RATINGS WEBINAR DETAILS



Our webinar is being offered through an audio broadcast mode. Audio broadcast automatically starts when an attendee joins the event. Attendees can play, pause or stop the broadcast. Remember to take our mute button off your speakers if you cannot hear the presenter! Please adjust the volume on your speakers.

- **The Q&A Panel can be used throughout the presentation.**
- **Enter your question and then hit send.**



FINANCIAL RATINGS WEBINAR PANELISTS



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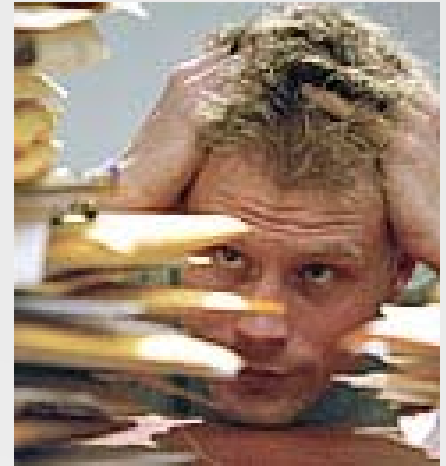
www.blaisexcess.com

INTRODUCTION



A typical insurance company ad will note the following:

- Competitive Rates;
- Broad Policy Form;
- Excellent Claims Service and;
- A.M. Best Rating A+.



This Blais E&S webinar is one of many that have been held on topics concerning Executive Line and Aviation coverages. Please visit our website for a full schedule of past and future webinars.

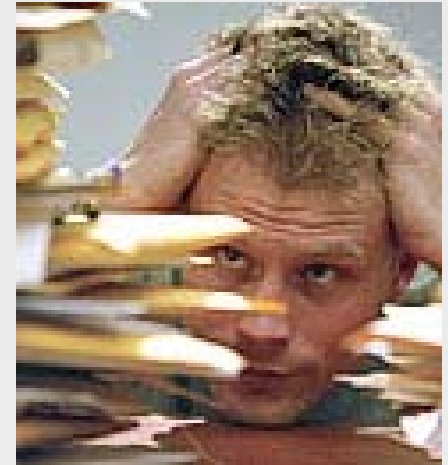
INTRODUCTION



As many of you know, many interested parties rely on financial strength ratings published by leading rating agencies like A.M. Best and Standard & Poor's as a basis for facilitating business relationships with financially sound (re) insurance companies.

Nevertheless, the basis for (re) insurance company ratings are not well understood amidst ever-changing requirements imposed by the rating agencies.

During this session we will review the key factors and issues considered by leading rating agencies in their evaluations as well as numerous other rating agency topics.



This Blais E&S webinar is one of many that have been held on topics concerning Executive Line and Aviation coverages. Please visit our [website](#) for a full schedule of past and future webinars.

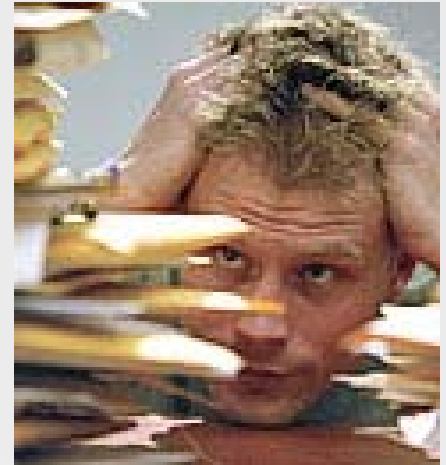
INTRODUCTION



During this webinar we will introduce and discuss four key focus areas, preceded by a brief quiz:

- **Focus Area 1 - Rating Agency Landscape (Slides 9-19);**
- **Focus Area 2 - Key Rating Factors & Hot Buttons (Slides 20-22);**
- **Focus Area 3 - 3rd Party Issues & Viewpoints (Slides 23-26) and;**
- **Focus Area 4 - Insights & Predictions(Slides 27-33)**

Our goal is to educate participants with information and facts as they pertain to the financial ratings of insurance companies.



This Blais E&S webinar is one of many that have been held on topics concerning Executive Line and Aviation coverages. Please visit our website for a full schedule of past and future webinars.

FINANCIAL RATINGS WEBINAR

SLIDE LOCATOR



SLIDE	TITLE	SLIDE	TITLE	SLIDE	TITLE
1	Cover Slide	19	Rating Trends	37	Q/A
2	Webinar Details	20	Focus Area 2 Introduction	38	Q/A
3	Panelist	21	Rating Factors – A.M. Best	39	Conclusion
4	Webinar Introduction	22	Rating Hot Buttons	40	Thank You
5	Webinar Introduction	23	Focus Area 3 Introduction	41	Copy Right Data
6	Webinar Introduction	24	Rating Agency Problems	42	Disclaimer
7	Slide Locator	25	NRSRO's		
8	Quiz	26	NAIC		
9	Focus Area 1 Introduction	27	Focus Area 4 Introduction		
10	Rating Firms Overview	28	NWP/Surplus Leverage		
11	Rating Scales	29	ROE Trends		
12	Rating Scales	30	Audience – Best		
13	Rating Scales – Best	31	Dodd Frank Act		
14	Rating Scales - Moody's	32	Dodd Frank Act		
15	Rating Scales - S&P	33	Dodd Frank Act		
16	Rating Scales – Fitch	34	Sources of Information		
17	Best vs S&P	35	Q/A		
18	P&C Impairments	36	Q/A		

FINANCIAL RATINGS - QUIZ



- Name five rating agencies?
- Who authorizes the rating agencies to operate?
- What does the NRSRO stand for? What is its purpose? How many firms are registered with the NRSRO?
- What are the five top rating agencies often referred to as?
- What firm was one of the principal shareholders of one of the top rating firms?
- Is a rating firm liable for their comments?
- What is the difference between A+ Rating at one firm and an A+ at another rating firm?
- What methodologies do each rating firm use?
- Have the rating firms ever predicted and/or warned the public of a failure?
- Who pays the rating agencies?
- What role does the individual state insurance departments play in the overview of ratings?
- What role does the NAIC play in the overview of ratings?
- What new legislation may impact the Rating Agencies?
- What impact will the _____ legislation have on rating agencies?
- What percentage of Best Ratings fall below A?





RATING AGENCY COMPETITIVE LANDSCAPE

- Principal Rating Agencies
- Financial Strength Ratings
- Regulatory vs. Rating Agency Differences



OVERVIEW OF THE MAJOR RATING FIRMS



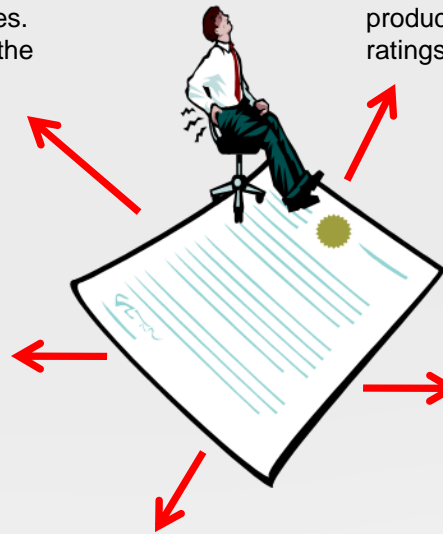
Fitch Ratings, in New York, rates a wide variety of financial operations, mostly dealing with credit risk. Its insurance ratings fall into two separate but related categories: insurer financial strength ratings and fixed income security ratings. The former provides an overall assessment of insurers' financial strength and security. The latter rates senior and subordinated debt securities, commercial paper programs and other forms of preferred stock, as well as several classes of securities. **Fitch** Ratings uses a number of criteria to determine the financial strength of an insurer, including financial statements, management reports, and company projections.

Standard & Poor's is a major provider of insurance ratings, but it is perhaps best known for its broader financial analysis services. Based in New York, S&P is the world leader in credit rating services, grading governments' ability to pay on the debts they owe. S&P also sets indices and benchmarks to gauge the performance of various financial markets. **Standard and Poor's** looks at an insurer's management team, competitive position, and ability to manage risk.

Weiss Research, Inc., based in Palm Beach Gardens, Florida, may not be as large as its competitors, but it was mentioned in a 1994 U.S. General Accounting Office report on insurance ratings as the most accurate rating agency in the business.

Moody's Investors Service is a leading global credit rating, research and risk analysis firm that publishes its rating opinions and research on a broad range of credit obligations. These include corporate and governmental capital market obligations, bank loans, managed funds and derivatives, securities, and insurance company obligations. Based in New York, Moody's is also a leading credit risk management consultancy. **Moody's** Investors Service uses other factors, such as market position, product focus, asset quality and profitability to determine their ratings of life insurance companies.

The A.M. Best Co. is the oldest and arguably the most respected insurance rating agency in the business. Founded in 1899, the Oldwick, New Jersey-based operation provides both financial strength ratings for insurers as well as debt ratings on insurers' ability to meet their financial obligations to security holders. Best's ratings cover the property/casualty market, the life and health market, reinsurers, health care (including health maintenance organizations) and alternative risk vehicles (such as captives and pools). Best also analyzes Lloyd's managing agents. **A.M. Best** is a provider that works exclusively in the insurance marketplace, looking at the strength of an insurance company's balance sheet, performance, and business profile. Companies pay a fee to be rated by A.M. Best, and insurer results are posted on the A.M. Best website.



RATING SCALES



INSURANCE COMPANY FINANCIAL STABILITY RATINGS

A. M. Best Company	Fitch Investors Service	Moody's Investor Service	Standard & Poor's	Weiss Research, Inc.
A++	AAA	Aaa	AAA	A+
A+	AA+	Aa1	AA+	A
A	AA	Aa2	AA	A-
A-	AA-	Aa3	AA-	B+
B++	A+	A1	A+	B
B+	A	A2	A	B-
B	A-	A3	A-	C+
B-	BBB+	Baa1	BBB+	C
C++	BBB	Baa2	BBB	C-
C+	BBB-	Baa3	BBB-	D+
C	BB+	Ba1	BB+	D
C-	BB	Ba2	BB	D-
D	BB-	Ba3	BB-	E+
E	B+	B1	B+	E
F	B	B2	B	E-
	B-	B3	B-	F
	CCC	Caa	CCC	
	DD	Ca		
		C		

The most recognized of the rating agencies are listed in the following table. Rating scales use letters from A to F with numbers added in some cases.



RATING SCALES



INSURANCE COMPANY FINANCIAL STABILITY RATINGS

RATING DESCRIPTION	A.M. BEST	FITCH	MOODY'S	STANDARD & POORS	WEISS
Superior Minimal risk of financial instability, most able to meet claim obligations	A++ A+	AAA	Aaa	AAA	A+
Excellent Financially strong with excellent claims paying ability	A A-	AA+ AA AA-	Aa1 Aa2 Aa3	AA+ AA AA-	A A-
Good Good claim paying ability, stronger than average company	B++ B+	A+ A A-	A1 A2 A3	A+ A A-	B+ B B-
Adequate Higher risk than "good" rating	B B-	BBB+ BBB BBB-	Baa1 Baa2 Baa3	BBB+ BBB BBB-	C+ C C-
Below Average below average claims paying ability and financial strength	C++ C+	BB+ BB BB-	Ba1 Ba2 Ba3	BB+ BB BB-	D+ D D-
Financially Weak high degree of risk, vulnerable to default	C C- D	B+ B B-	B1 B2 B3 D	B+ B B-	E+ E E-
Nonviable Extremely risky, in or near default	E F	CCC CC C DDD DD D	Caa Ca C	CCC CC R	F

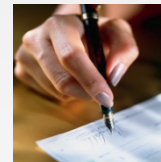
This table gives you an idea of what each of the various ratings mean when compared to each other utilizing a rating description breakout column. Each service uses its own criteria to issue a "report card" for the companies it rates. Although each service uses an alphabetical rating scale, an A+ from one service may not mean the same as an A+ from another.



A.M. BEST RATING EXPLANATIONS



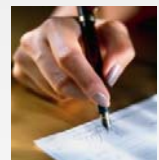
Rating:	Description:	Definition:
A++, A+	Superior	Able to meet insurance obligations.
A, A-	Excellent	Able to meet insurance obligations.
B++, B+	Good	Able to meet insurance obligations.
B, B-	Fair	Vulnerable to unfavourable economic conditions.
C++, C+	Marginal	Vulnerable to unfavourable economic conditions.
C, C-	Weak	Very vulnerable to unfavourable economic conditions.
D	Poor	Extremely vulnerable to unfavourable economic conditions.
E	Under Supervision	Company is under regulation, preventing normal business operations.
F	In Liquidation	Company is ongoing voluntary liquidation.
S	Suspended	Unevaluated due to inadequate information or lack of cooperation.



MOODY'S RATING EXPLANATIONS



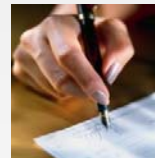
Rating:	Description:	Definition:
AAA	Extremely Strong	Market conditions are unlikely to affect a fundamentally strong position.
AA	Very Strong	High-grade company with marginally larger long-term risks.
A	Strong	Financially secure, but signs of possible long-term susceptibility.
Baa	Adequate	Lacking in certain protective elements over the long term.
Ba	Questionable	Ability to meet obligations is questionable.
B	Poor	Long-term ability to meet obligations on time is small.
Caa	Very Poor	May be in default of financial obligations already.
Ca	Extremely Poor	In default of financial obligations.
C	Extremely Poor	Very poorly positioned to offer financial security.



S&P RATING EXPLANATIONS



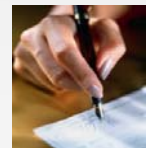
Rating:	Description:	Definition:
AAA	Extremely Strong	Very unlikely to be affected by adverse economic conditions.
AA	Very Strong	Unlikely to be affected by adverse economic conditions.
A	Strong	Marginally more likely to be affected by adverse economic conditions.
BBB	Good	May be affected by adverse business conditions.
BB	Marginal	Adverse business conditions may lead to inability to meet obligations.
B	Weak	Adverse business conditions are likely to affect ability to meet obligations.
CCC	Very Weak	Depends on favourable business conditions to meet obligations.
CC	Extremely	Likely to not meet all financial obligations.
R	Regulatory Action	Subject to regulation due to insolvency.
NR	Not Rated	No opinion.



FITCH RATING EXPLANATIONS



Rating:	Description:	Definition:
AAA	Exceptionally Strong	Very unlikely to be affected by adverse economic conditions.
AA	Very Strong	Not significantly vulnerable to adverse economic conditions.
A	Strong	Low expectation for interruption of payments.
BBB	Good	May be affected by adverse economic conditions.
BB	Moderately Weak	Contractual obligations are now vulnerable.
B	Weak	Significant risk for interruption of payments.
CCC	Very Weak	Strong likelihood for interruption of payments.
CC	Extremely Weak	Interruption of payments is probable.
C	Distressed	Interruption of payments is imminent.



A.M. BEST vs S&P RATINGS



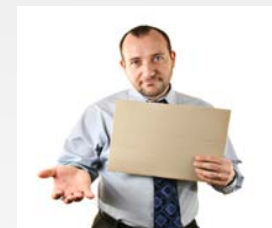
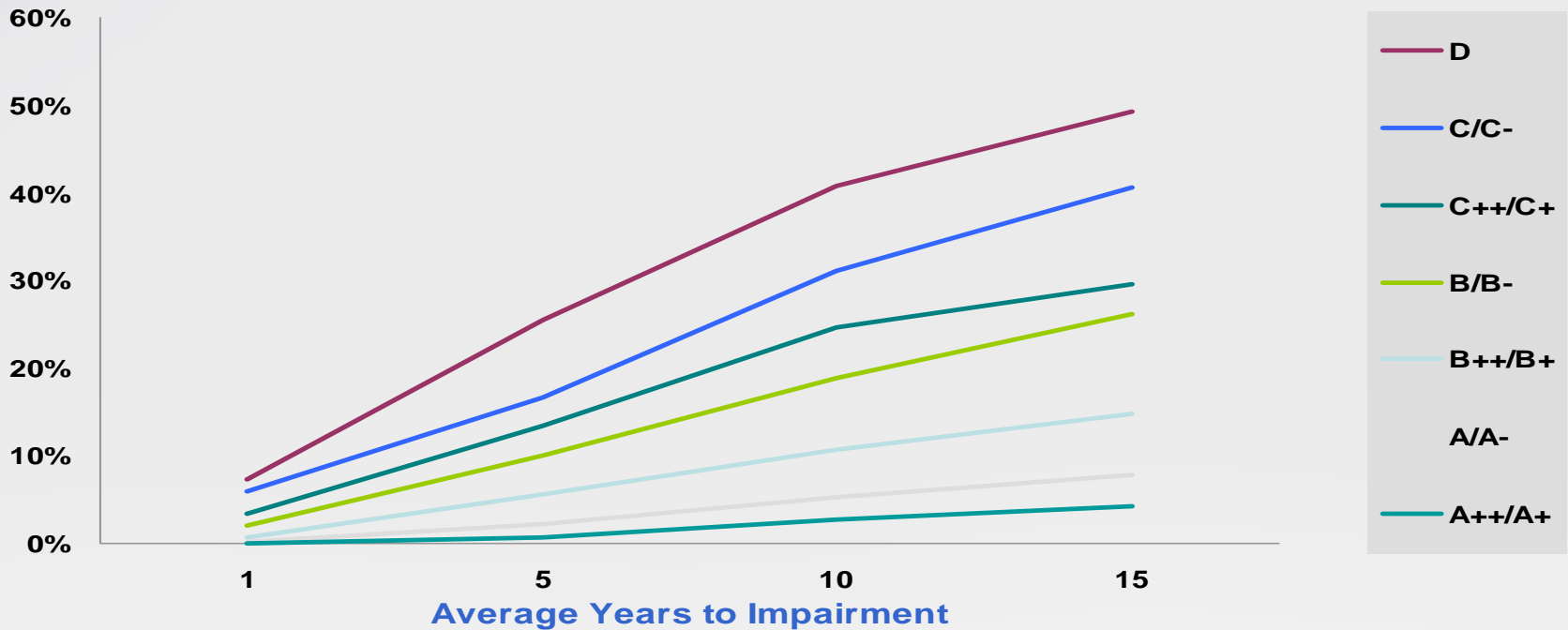
CATEGORY	A.M. BEST	S&P
Ratings Inception	<ul style="list-style-type: none"> Financial Strength: 1906 Debt: Early 2000's 	<ul style="list-style-type: none"> Financial Strength: 1978 Debt: 1916
Rating Scale	<ul style="list-style-type: none"> A++ to F (15 Levels) 	<ul style="list-style-type: none"> AAA to R (19 Levels)
US Market Share	<ul style="list-style-type: none"> Premiums: 98+% Insurers: 99+% 	<ul style="list-style-type: none"> Premiums: 80%+ Insurers: <50%
Strengths	<ul style="list-style-type: none"> Unrivaled US franchise Strong credibility 	<ul style="list-style-type: none"> Strong global debt & insurance franchise Progressive criteria development
Challenges	<ul style="list-style-type: none"> Modest international & debt ratings position Increased regulatory scrutiny 	<ul style="list-style-type: none"> Limited success with smaller US insurers Increased regulatory scrutiny



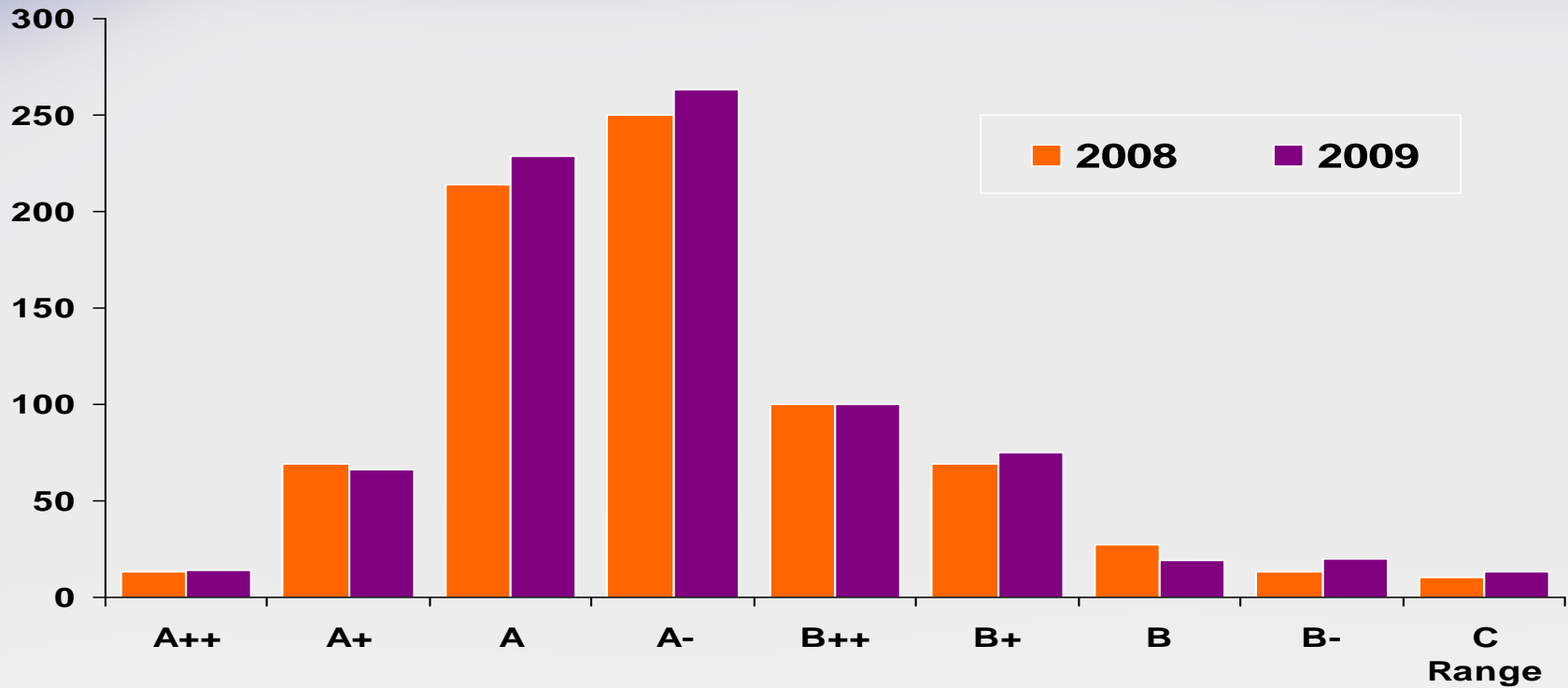
P&C IMPAIRMENTS BY RATING LEVEL



Insurers with strong ratings are less likely to become impaired over long periods.



BEST P&C RATING TRENDS





KEY RATING FACTORS AND HOT BUTTONS

- Rating Process
- Key Rating Factors



A.M. BEST KEY RATING FACTORS



Best's Rating

Balance Sheet Strength

- Capital Adequacy
- Reserve Adequacy
- Reinsurance Credit
- Asset Quality
- Growth
- Liquidity
- Financial Flexibility

Operating Performance

- Historic/Future Results
- Earnings Quality
- Stability (5-10 yr.)

Business Profile

- Market Risk
- Spread of Risk
- Competitive Position
- Management
- Event Risk
- Franchise Value



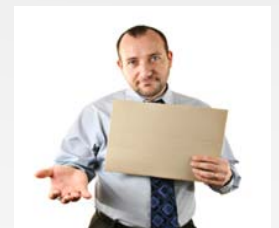
RATING HOT BUTTONS & OUTLOOK



- Pricing discipline (cycle management)
- Reserve adequacy
- Catastrophe risk management
- Enterprise risk management

Rating Outlooks by Agency

Sector	S&P	A.M. Best	Moody's	Fitch
U.S. Personal	Negative	Stable	Stable	Stable
U.S. Commercial	Negative	Stable	Negative	Stable
Global Reinsurance	Stable	Stable	Negative	Stable



FOCUS AREA 3



3rd PARTY ISSUES AND VIEWPOINTS ON RATING AGENCIES

- Reliance on Ratings
- Assessment of Rating Agencies
- Ratings Influence on Company Strategy



Credit Rating Agencies - Problems



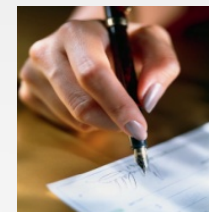
Many credit rating agencies have ventured far from their original role as reliable financial gatekeepers. They no longer provide consistently dependable information about credit risk. This has put many institutional investors in a box because they are still required to use ratings, regardless of the accuracy of the ratings. Stung by losses on investments in a string of once highly rated companies, from Enron to Lehman Brothers, investors are seeking ways to strengthen oversight and accountability of rating agencies, as well as new tools to evaluate credit risk.

Credit Rating Agencies—NRSROs



Credit rating agencies registered as such with the SEC are known as “Nationally Recognized Statistical Rating Organizations.” There are ten firms currently registered as NRSROs:

A.M. Best Company, Inc.
DBRS Ltd.
Egan-Jones Rating Company
Fitch, Inc.
Japan Credit Rating Agency, Ltd.
LACE Financial Corp.
Moody’s Investors Service, Inc.
Rating and Investment Information, Inc.
Realpoint LLC
Standard & Poor’s Ratings Services



National Association of Insurance Commissioners (NAIC)



National Association of Insurance Commissioners (NAIC)

The National Association of Insurance Commissioners (NAIC) members are the elected or appointed state government officials who, along with their departments and staff, regulate the conduct of insurance companies and agents in their respective state or territory. The mission of the NAIC is to assist state insurance regulators, individually and collectively, in serving the public interest and achieving the following fundamental insurance regulatory goals in a responsive, efficient and cost effective manner, consistent with the wishes of its members:

- *Protect the public interest;*
- *Promote competitive markets;*
- *Facilitate the fair and equitable treatment of insurance consumers;*
- *Promote the reliability, solvency and financial solidity of insurance institutions; and*
- *Support and improve state regulation of insurance.*



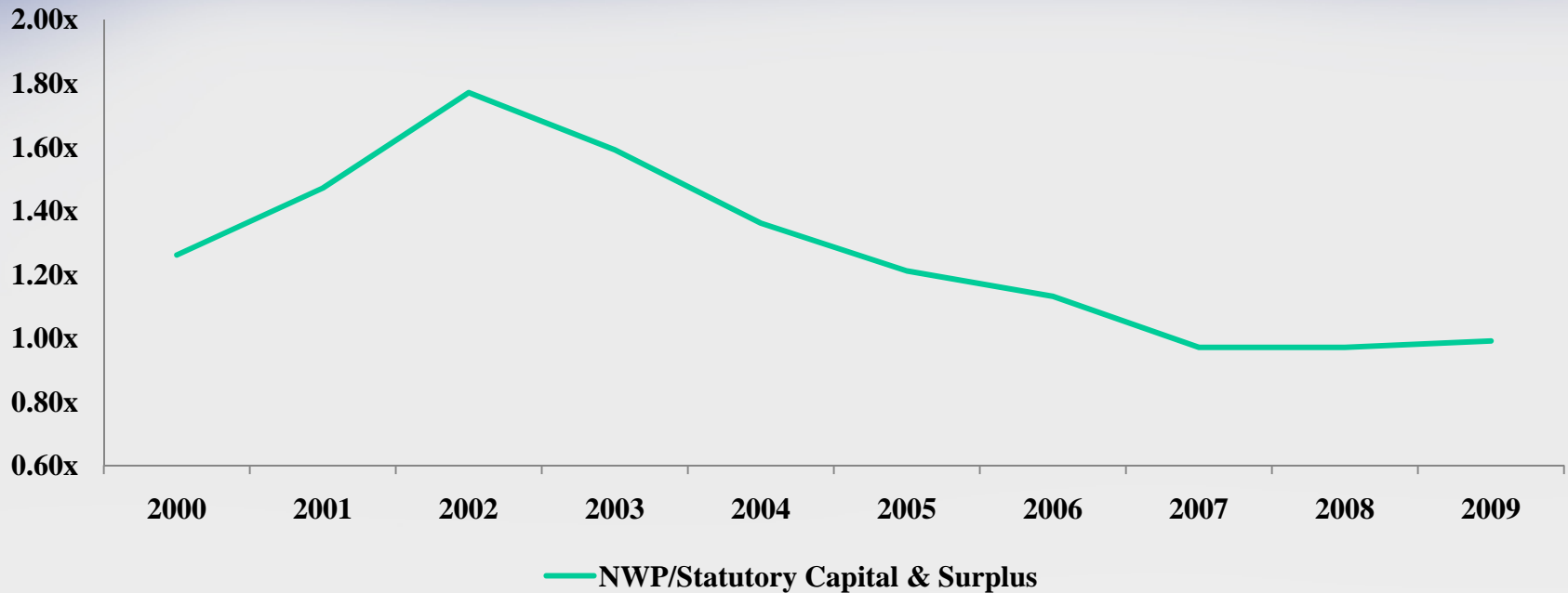


INSIGHTS & PREDICTIONS

- Future Changes to Rating Factors
- Future Insurance Regulatory Changes
- Financial Regulatory Reform
- Key Takeaways



NWP/SURPLUS LEVERAGE

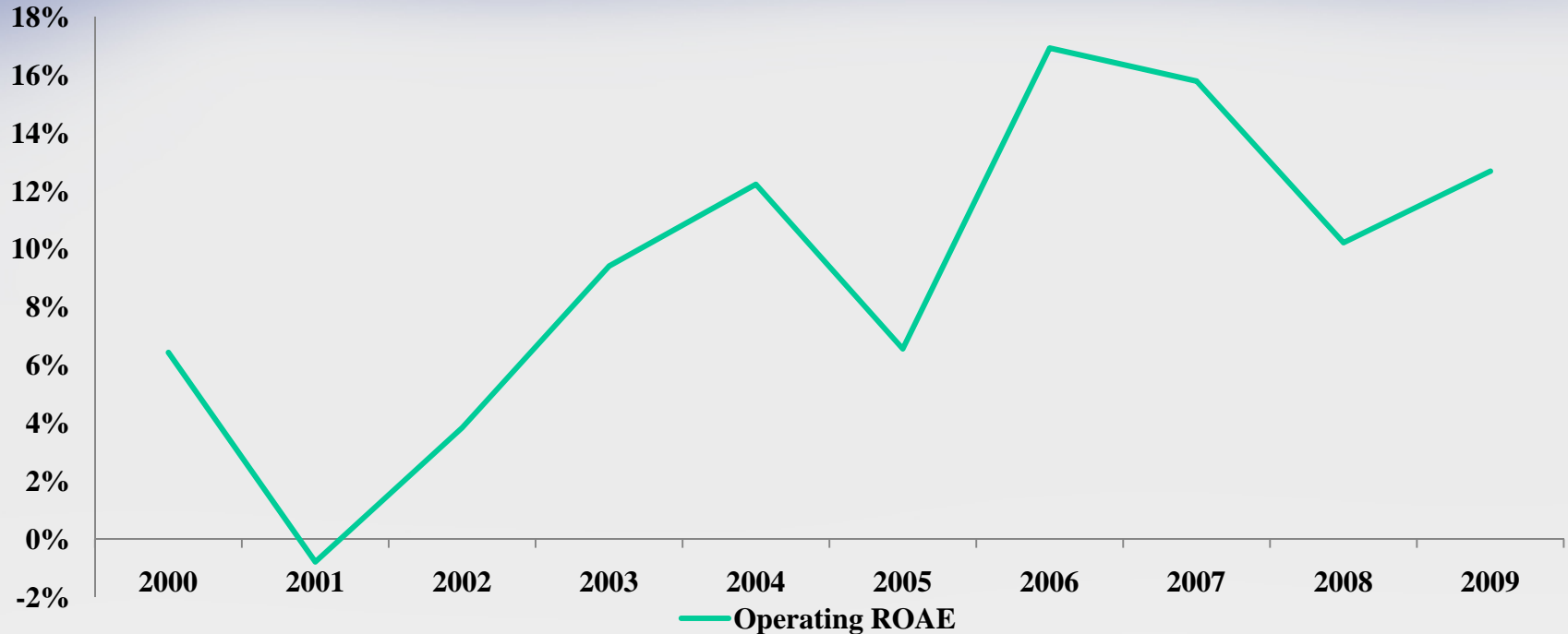


Source: SNL Financial

Notes: NWP/Statutory Capital & Surplus for WSI Professional Liability Underwriters Index in 2000-2009.



RETURN ON EQUITY TREND



Source: SNL Financial

Notes: ROAE for WSI Professional Liability Underwriters Index in 2000-2009.



AN AUDIENCE WITH A.M. BEST



RATING AGENCIES



Dodd-Frank creates the new SEC Office of Credit Ratings. This Office is charged with administering SEC rules with respect to NRSRO practices in determining ratings. The Office is also required to conduct an annual examination of each NRSRO and issue a public report. The report must summarize the essential findings of the examination, identify material deficiencies, state if previous SEC recommendations have been resolved and record any response by the examined agency. The SEC is also required to establish fines and penalties for any NRSRO violations.

RATING AGENCIES



The Dodd Frank Act also addresses the “revolving door” issue between NRSROs and their clients. In this regard, Dodd-Frank requires that each NRSRO report to the SEC employment of certain senior officers associated with the rating agency in the prior five years where the agency has issued a rating for an instrument during the twelve month period prior to the employment of that person. The SEC is to make this information available to the public.


RATING AGENCIES



The Dodd Frank Act deals with expert liability: NRSROs may now be liable under Section 11 of the Securities Act. Dodd-Frank overrides Rule 436 which exempted the organizations from being considered as part of a registration statement. Accordingly, to include a report in a registration statement, consent from the NRSRO will have to be obtained.

RATING INFORMATION SOURCES



FIRM/SOURCE	WEBSITE
National Association of Insurance Commissioners – NAIC	www.naic.org
Texas Department of Insurance – TDI	www.tdi
Standard & Poors	www.standardpoors.com
Fitch	www.fitchratings.com
Moody's	www.moody.com
A.M. Best Company	www.ambest.com
Weiss Ratings	www.weissratings.com
Kroll Bond Ratings	www.krollbondratings.com
SNL Financial	www.snl.com
AXCO	www.axcoinfo.com
Dodd Frank Information	www.dodd-frank.com
	The Guide to Understanding Insurance Ratings: How to use and explain the benchmark analysis to size up financial strength By A.M. Best Company

Product Description

This second edition of "The Guide to Understanding Insurance Ratings," published by the A.M. Best Co., looks at how the analysis used in sizing up financial strength can be employed by agents/brokers. The guide explores many financial ratios and tests used in analyzing property/casualty and life/health insurance companies, with actual examples. All financials and statistics in this edition have been updated to 2008. Also new to this edition is a look at 2008 P/C and L/H impairments, with updated information on impairment causes. An overview on Best's Credit Ratings contains what A.M. Best rates, including insurance company debt instruments like corporate debt or commercial paper, and insurance-linked securities and structured finance agreements like catastrophe bonds and various securitizations. Also covered are highly rated insurers that have held a secure A.M. Best rating for 75 and 50 consecutive years, an overview of Best's Capital Adequacy Ratio (BCAR) and top P/C and L/H writers.



QUESTIONS/ANSWERS



**The entire
Blais Team
operates as a
combined unit to
answer questions
and handle
accounts.**



QUESTIONS/ANSWERS



QUESTION:

From your view point what is a key offspring of the changes we are facing?

ANSWER:

UNCERTAINTY

- Whenever there are new regulations, businesses are going to react very cautiously, and we continue to see a crisis of confidence.
- On financial reform, our country's economic outlook, our jobs outlook and much more -- are going to be riding on how the regulators interpret what's included in that legislation when it's finally signed into law and approved.



QUESTIONS/ANSWERS



QUESTION:

Will the new legislation make another crisis less likely?

ANSWER:

FINANCIAL REFORM

- “Nobody knows.”
- As the inimitable Yogi Berra used to say, “In theory, there’s no difference between theory and practice. But in practice, there is.”
- Some quick history for you: Today’s going to be different from the last great wave of financial reforms in the 1930s – that reform came in the wake of the Great Depression, and brought us federal deposit insurance.
- It brought us the Securities and Exchange Commission, and the Glass-Steagall Act and Social Security.
- Incidentally, the Banking Act of 1933, the actual piece of legislation, contained less than 40 pages. The Dodd-Frank reform is 2,300 pages.
- By comparison, this current round of financial reform will be different in the sense that industry leaders will not be broken up, or forced to sell off major pieces of their businesses.



QUESTIONS/ANSWERS



QUESTION:

Dodd-Frank - what are your views of the Act?

ANSWER:

- It's crazy logic, if you think about it. None other than Senator Dodd, who is half-author of this bill, has been quoted as saying the law is so complex that no one can predict how it will actually work until it's been out there for awhile.
- The short answer is, it'll probably eliminate some risks, but at the same time it will also raise costs and slow down growth.



CONCLUSION



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PAST WEBINARS

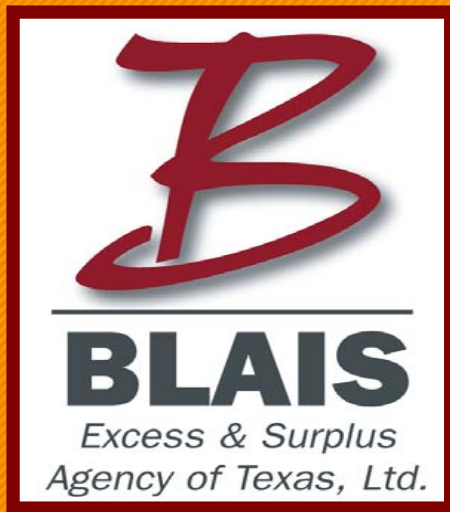
This webinar is one of a number of webinars devoted to the
Executive Line and Aviation coverages produced by Blais E&S and
Blais Aviation Insurance Services.



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