



2010 PLUS International Conference



DEMYSTIFYING THE  
FINANCIAL STRENGTH OF  
INSURANCE COMPANIES

**BLAZING NEW TRAILS  
IN PROFESSIONAL LIABILITY**



# PANELIST

PHILIP L. BLAIS	Blais E&S - <b>Moderator</b>
DICK EVANS	Cullen/Frost Bankers, Inc - Chairman & CEO
DOUG SLAPE	Texas State Department of Insurance - Chief Analyst
LOUISE G. CROCKETT	Wells Fargo – VP , Senior Marketing Executive
ERIC SIMPSON	Towers Watson - Senior VP
ELIZABETH MALONE	Wunderlich Securities – Analyst



# DISCUSSION FOCUS AREAS

- RATING AGENCY COMPETITIVE LANDSCAPE
- KEY RATING FACTORS & HOT BUTTONS
- 3<sup>RD</sup> PARTY ISSUES & VIEWPOINTS
- INSIGHTS & PREDICTIONS



# FOCUS AREA 1

## RATING AGENCY COMPETITIVE LANDSCAPE

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



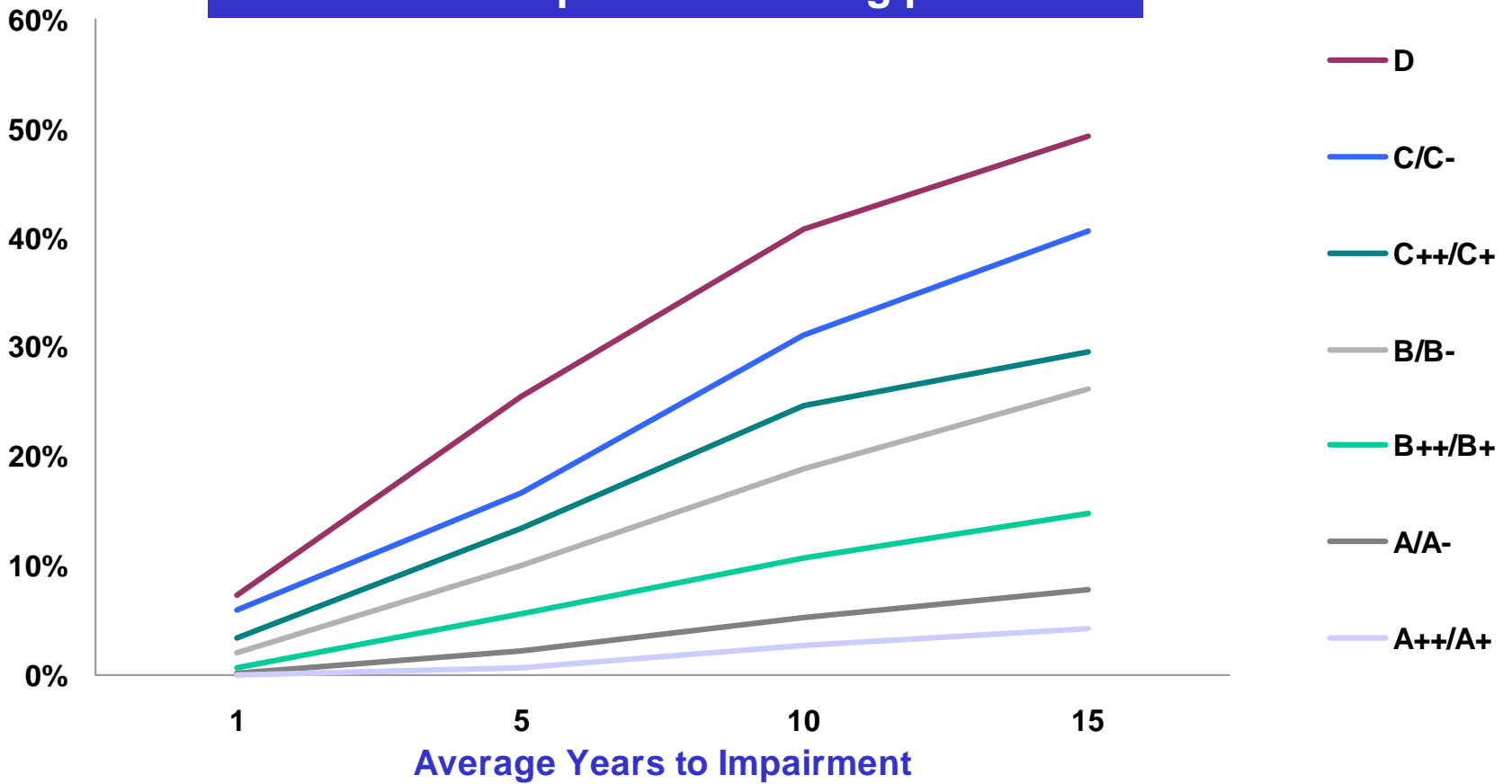
# A.M. BEST vs S&P RATINGS

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



# P&C IMPAIRMENTS BY RATING LEVEL

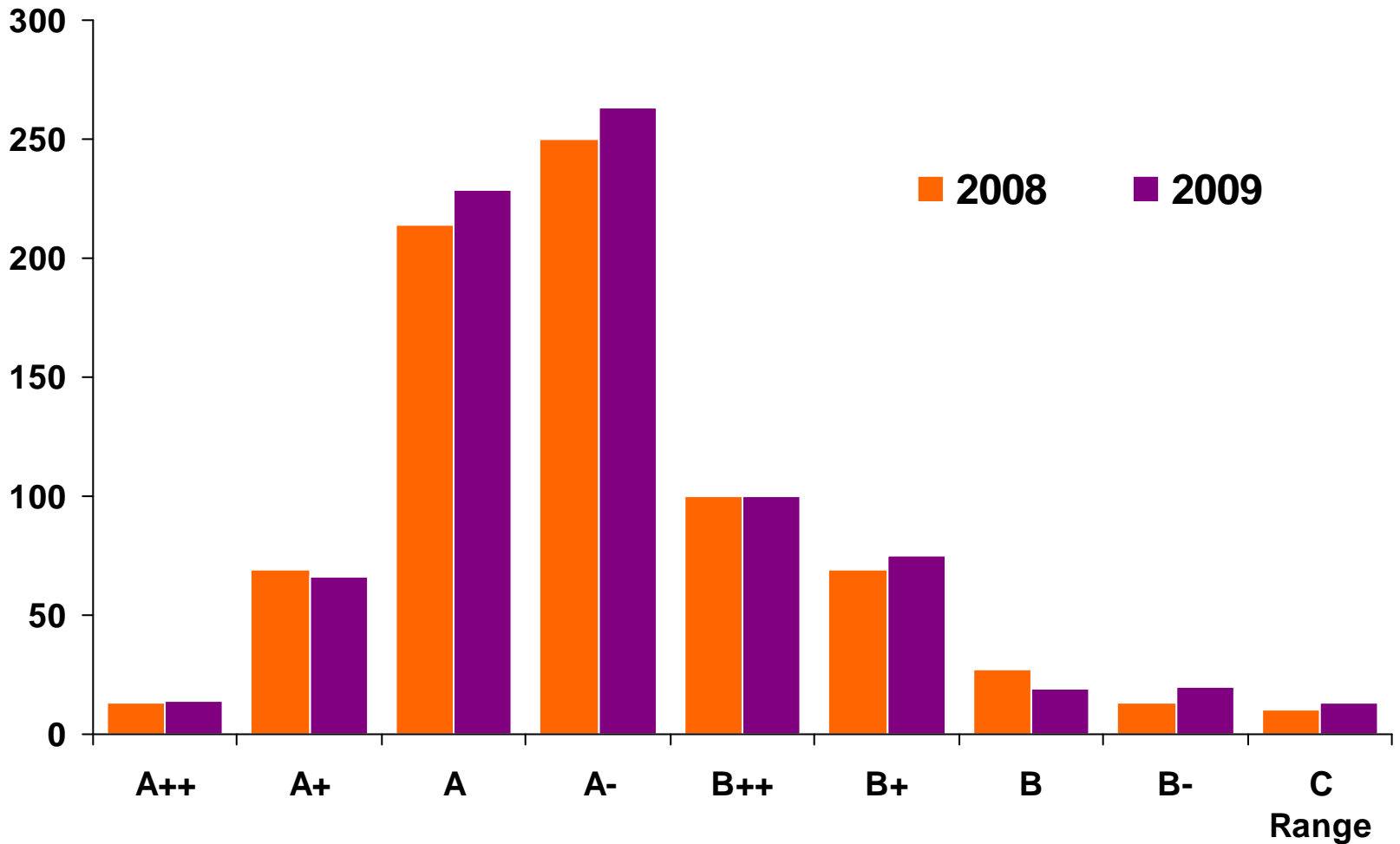
Insurers with strong ratings are less likely to become impaired over long periods.



Sources: A.M. Best 2008 Impairment Study



# BEST P&C RATING TRENDS



Source: AM Best ratings as of Aug, 2010, ( 799 Rating Group)



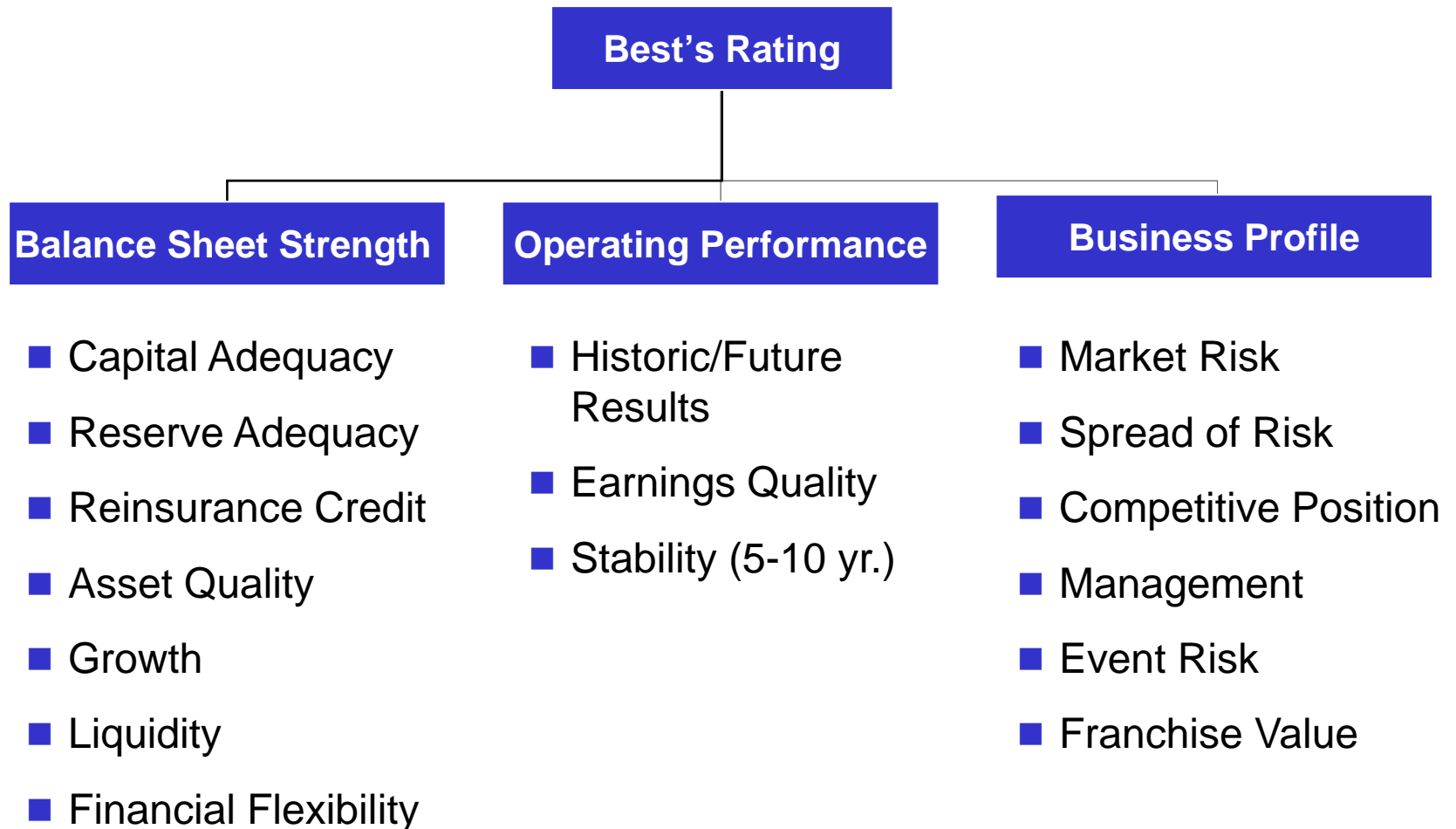
## FOCUS AREA 2

# KEY RATING FACTORS AND HOT BUTTONS

- Rating Process
- Key Rating Factors



# A.M. BEST KEY RATING FACTORS





# 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

# 3<sup>rd</sup> PARTY ISSUES AND VIEWPOINTS ON RATING AGENCIES

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



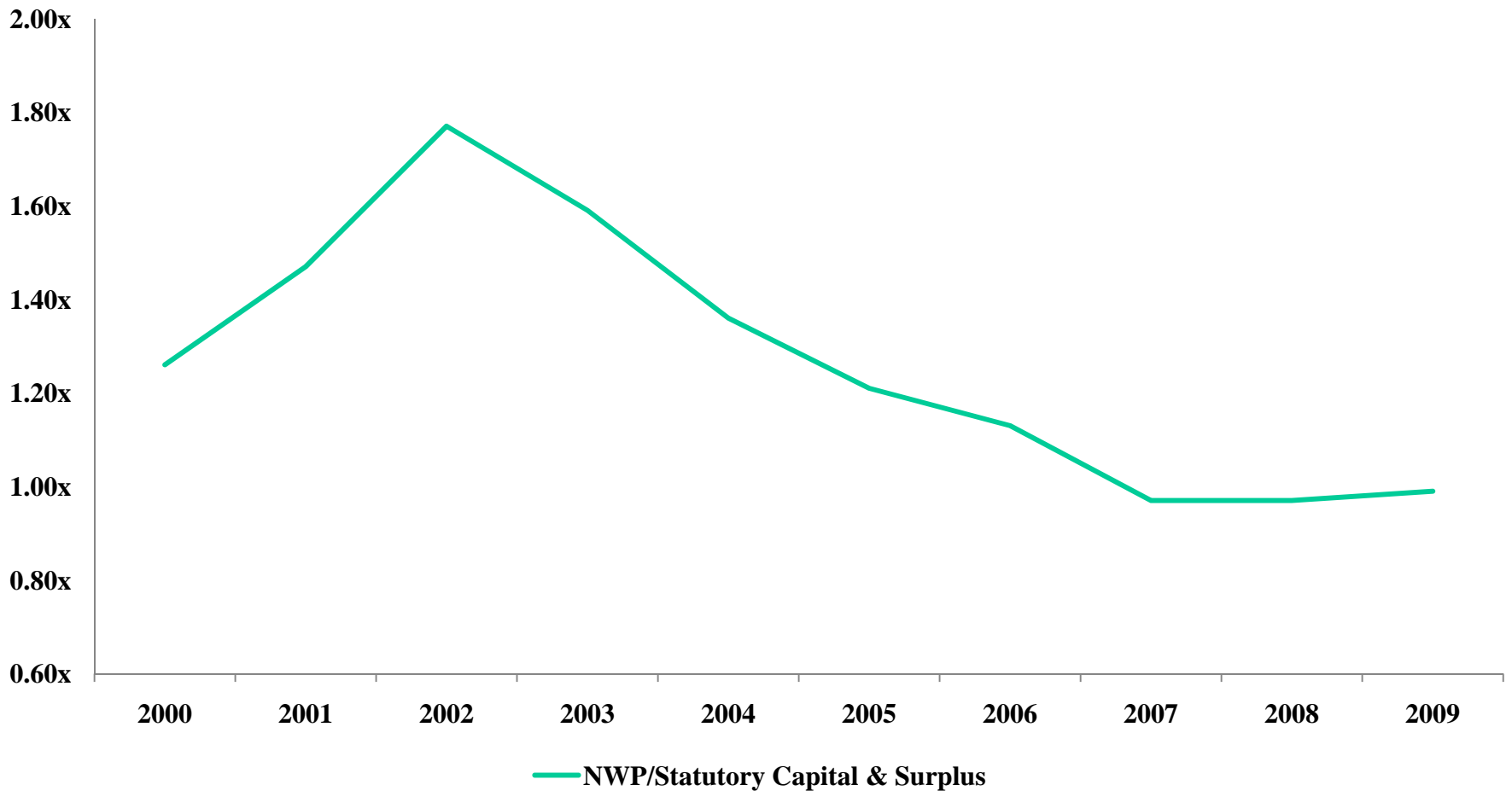
## FOCUS AREA 4

# 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





# QUESTIONS & ANSWERS