

Willis Re Analytics Financial Advisory

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Rating agency capital modeling

Rating agencies employ an array of quantitative and qualitative methods, which are utilized to evaluate an organization's ability to meet its current and ongoing policyholder obligations. In addition to insurer's business profile and operating performance, importance is placed on the evaluation of a company's risk-adjusted capitalization. A.M. Best utilizes its Best Capital Adequacy Ratio analysis (BCAR) as a critical aspect of an insurer's balance sheet strength. Conclusions drawn at this stage of the analytical process can significantly affect the outcome of a rating opinion. Willis Re's Financial Services team gives you an inside view of this process.

How ratings capital adequacy analysis works

Embedded within the BCAR are a series of risk-adjusted capital requirements based on analytic modeling. Risk categories of significant importance include:

- Catastrophe Risk
- Asset risk
- Credit risk
- Reserving risk
- Premium risk
- Business risk

In addition, A.M. Best applies stress- based scenario testing that could impact their opinion of an insurer's ability to manage extreme event scenarios such as natural catastrophe and acts of terrorism.

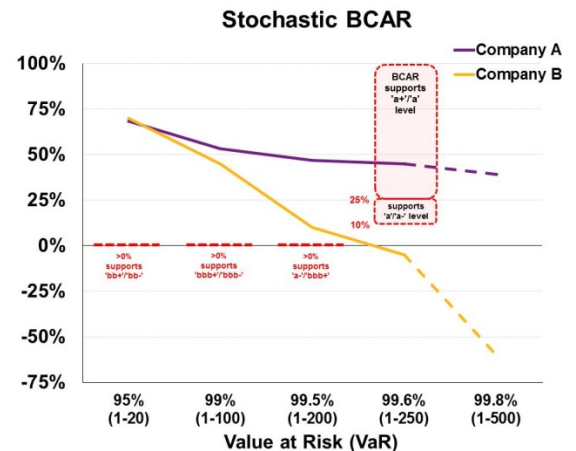
Benefits of the analysis

- Increased awareness of capitalization needed to achieve desired ratings
- Superior understanding for the impact of prospective risk management changes on capital adequacy measures
- Access to additional financing knowledge of qualitative factors to ensure appropriate treatment consistent with published rating methodologies

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Working with Willis Re

Many of our clients find Willis Re's **capital adequacy analysis** useful in contexts such as

- Developing and/or benchmarking internal capital adequacy models
- Gaining insight on current rating agency capital model development initiatives
- Providing an expert, independent evaluation of rating-related issues and the impact strategic alternatives may have on your firm's rating level

Willis Re assists you by providing a thorough understanding of the key drivers that influence capital adequacy ratios and identifying areas that will enhance or secure your company's rating position.