

Trend Review
April 17, 2025

Business profiles
can provide
a foundation
for stable and
consistent earnings

Implications of Business Profiles on Operating Performance

Principal Takeaways

- AM Best considers a company's business profile a foundation for earnings stability and surplus growth.
- Business concentration—both product and geographic—is the greatest drag on business profile assessments.
- Insurers operating in fewer states or lines may face greater challenges managing the financial impact of secondary perils than national insurers that can better diversify their risk.
- Higher business profile assessments generally correlate with stronger operating performance assessments, demonstrated by a gradual decline in return on revenue (ROR) and higher volatility in results as business profile assessments worsen.

In contrast to the balance sheet strength and operating performance assessments in AM Best's ratings process, the business profile assessment analysis is more qualitative than quantitative. Business profile assessments include an evaluation of components including market position, degree of competition, product/geographic concentration, product risk, distribution channels, pricing sophistication and data quality, management quality, innovation, and regulatory, event, market, and country risks. Management quality or operational capabilities are harder to measure quantitatively. However, metrics for geographic concentration, market share, or share of product lines in the business mix, for example, do play a role when assessing business profiles. Analysis and understanding of an insurer's operating strategy and competitive advantages by line is essential to assess the company's ability to respond to competitive market challenges, potential market disruption, economic volatility, and regulatory changes that could affect its book of business.

AM Best takes a longer-term view of companies' business profiles, analyzing historical trends. If any meaningful changes occur, we ascertain if the changes affect the other building blocks, such as geographic expansion having a positive impact on operating performance. Changes in business profile assessments are less frequent than balance sheet strength and operating performance assessments. Because business profiles take a longer-term view, they typically are not the drivers of rating movements. However, we view the business profile as a foundation for earnings stability and surplus growth.

Analytical Contacts:

Jason Hopper, Oldwick
+1 (908) 882-1896
Jason.Hopper@ambest.com

Doniella Pliss, Oldwick
+1 (908) 882-2245
Doniella.Pliss@ambest.com

2025-058

Limited Business Profiles for More than Half of All US P/C Companies

Business concentration—both product and geographic—is the greatest drag on business profile assessments, with nearly 60% of US property/casualty companies having a concentration sub-assessment of negative. The degree of competition (31% assessed as negative), market position (22% negative), and product risk (22% negative) also weigh on business profiles. Companies with business profile assessments of Favorable have higher assessments in these four categories than companies with business profile assessments of Limited (**Exhibit 1**).

Shifting Geographic Risk

There has been shift in risk profiles of states due to secondary perils, which have become a major cause of loss. Insurers operating in fewer states or with fewer lines may face greater challenges managing the financial impact of these perils than national insurers that can better diversify their risk. Companies with Limited business profile assessments have higher concentrations in states and in business lines (**Exhibit 2**).

Approximately 50% of companies with a Limited business profile have their largest concentration in California, New York, Florida, and Texas. P/C companies domiciled in these four states accounted for nearly 35% of P/C downgrades from 2021 through 2024 (**Exhibit 3**). Concentrations, whether product or geographic, can lead to heightened climate risk, event risk, limited flexibility, earnings volatility, capital pressure, and regulatory risk.

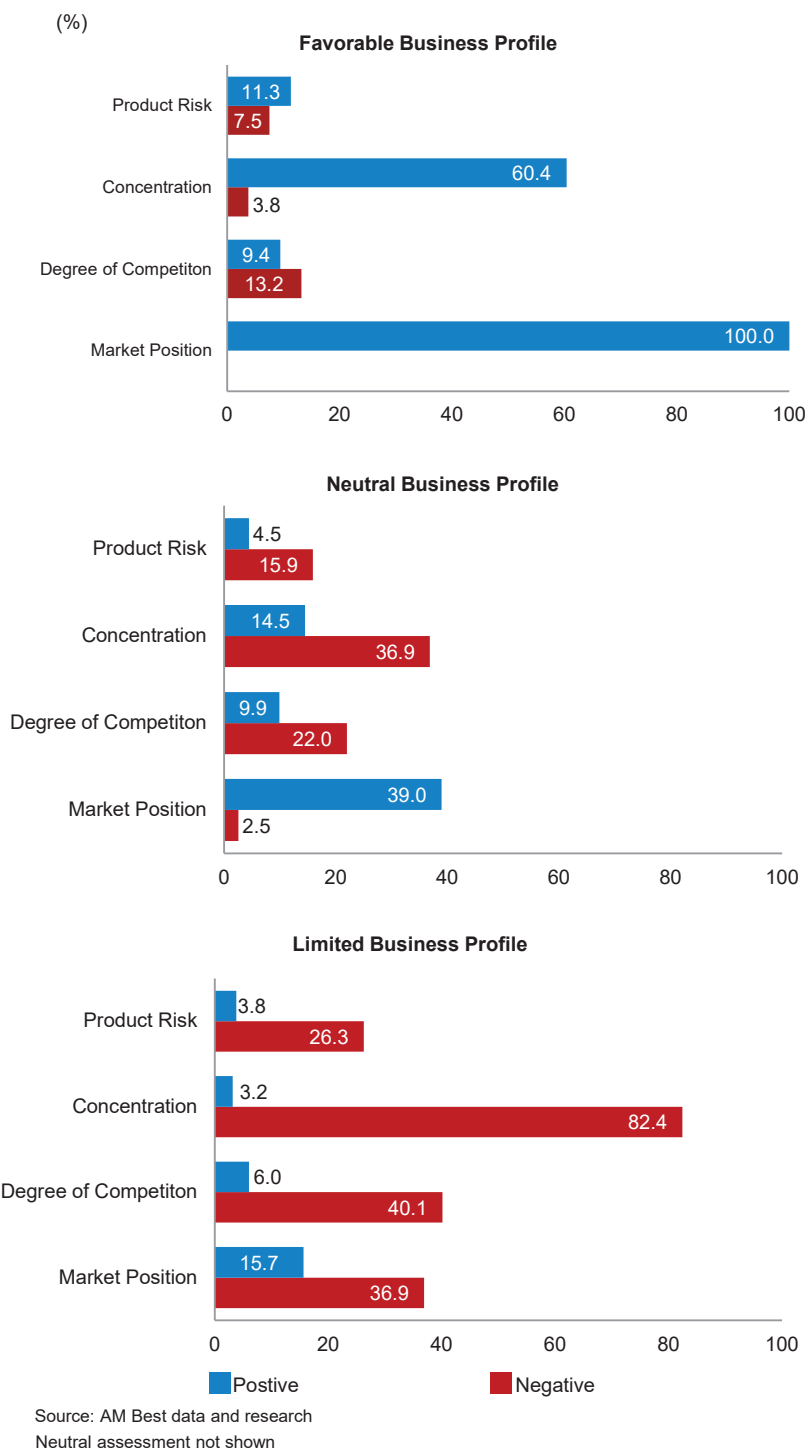
Three Lines Dominate in Favorable Business Profile Assessments

Risk profiles vary by product, with concentrations in riskier business lines reflected in business profile assessments. AM Best assesses 52% of companies as having a Limited business profile; 10% are considered Favorable; and the rest neutral. Companies with a Favorable assessment are in Commercial Casualty (50%), PPSA/Home (23%), and Commercial Property (12%) composites (**Exhibit 4**).

Impacts of Scale

Qualitative components are generally more robust at larger companies, and in a majority of cases, larger companies provide a better foundation for stability of earnings and lower volatility over the longer term. Smaller companies can also have a well-established market position, long-term distribution and client relationships, and unique expertise. Management quality and operational flexibility can further support smaller companies' strong market position. Smaller companies may

Exhibit 1
US P/C Business Profile Assessment – Sub-Assessment Distributions



also be able to implement innovation initiatives more quickly. Being a larger organization generally correlates with more Favorable business profiles, but smaller organizations can also have Favorable business profiles and larger companies can have Limited business profiles (**Exhibit 5**).

Favorable Business Profiles Support Better Profitability

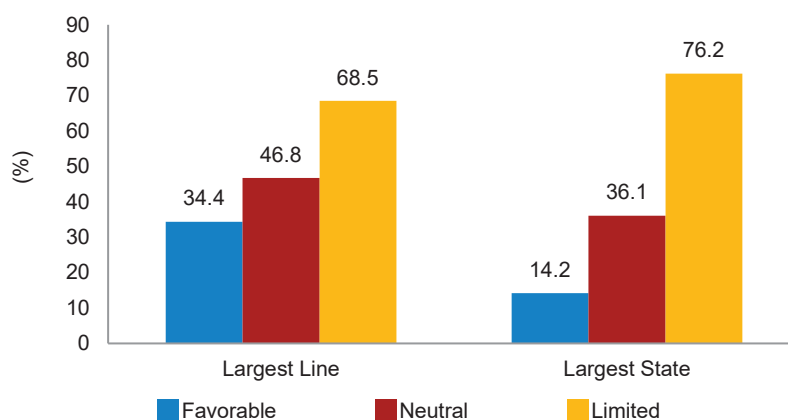
Higher business profile assessments generally correlate with stronger operating performance assessments. However, companies with Limited business profiles can consistently generate earnings and have a

Strong operating performance assessment. The link can be seen analyzing ROR, which gradually declines as business profile assessments worsen. But the main difference is the level of volatility over a 10-year period (**Exhibit 6**). Although companies with Limited or Very limited business profiles can still generate earnings, the level of volatility jumps significantly. The real differentiator for

a high quality business profile is the ability to generate consistent and stable earnings.

Exhibit 2

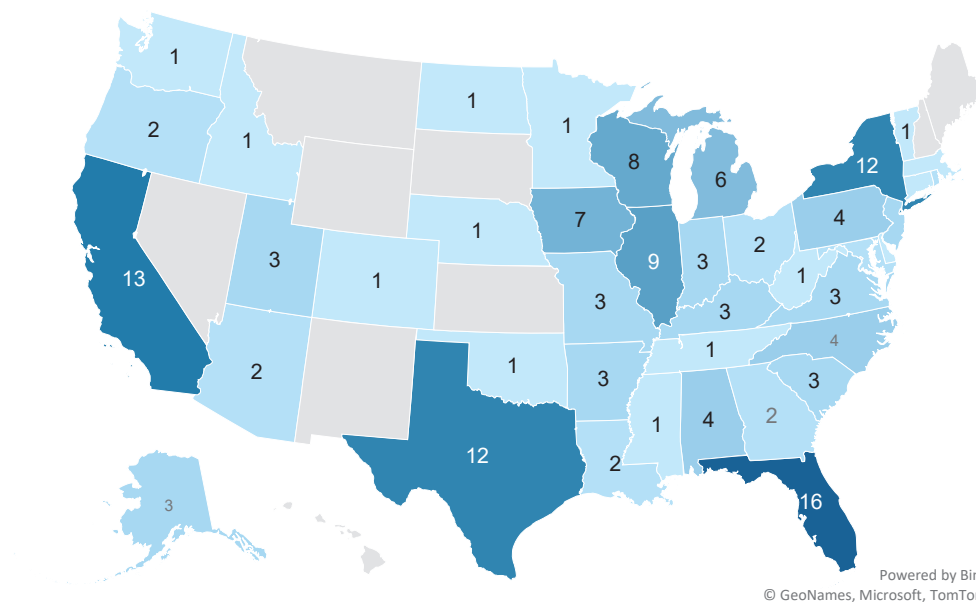
Median Concentration of Largest Line & State by Business Profile Assessment



Source: **BESTLINK**

Exhibit 3

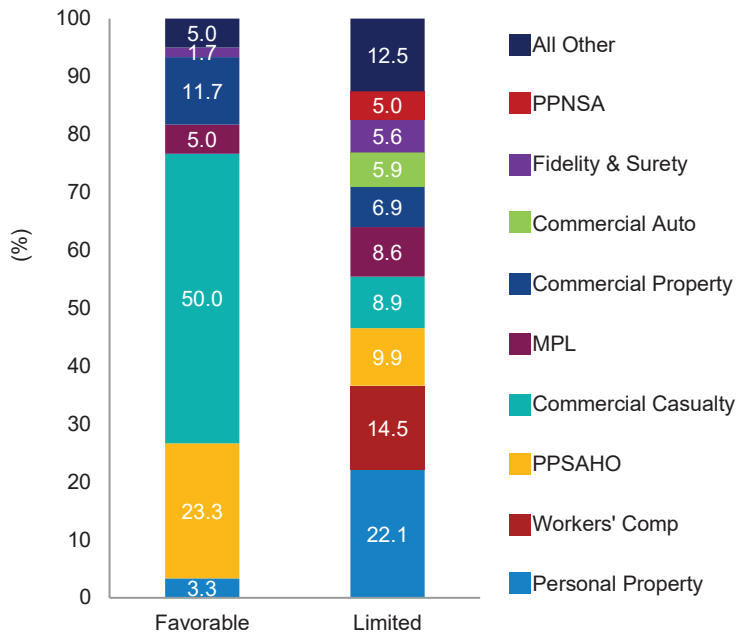
Number of P/C Downgrades by State of Domicile, 2021-2024



Source: AM Best data and research

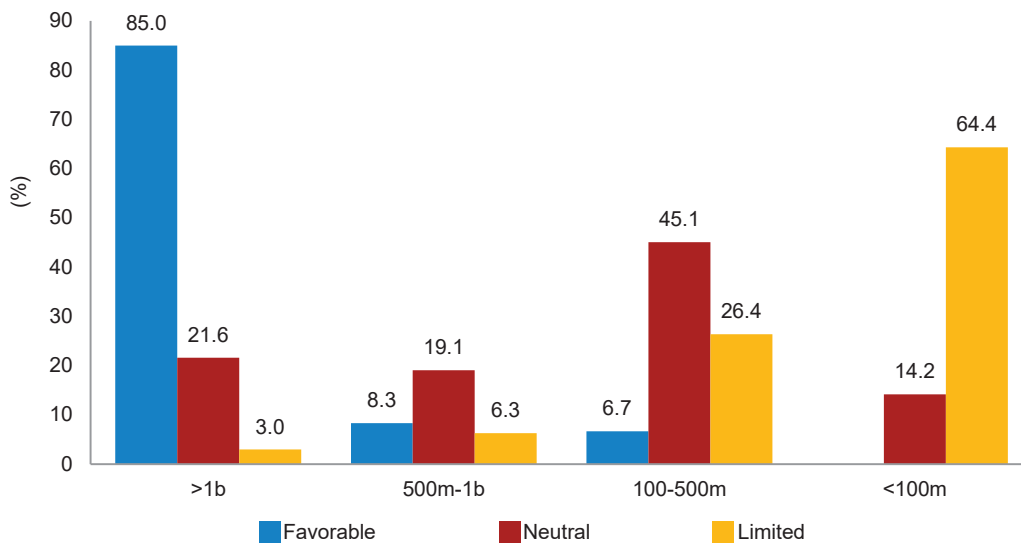
Powered by Bing
© GeoNames, Microsoft, TomTom

Exhibit 4
Business Profile Assessments by Composite



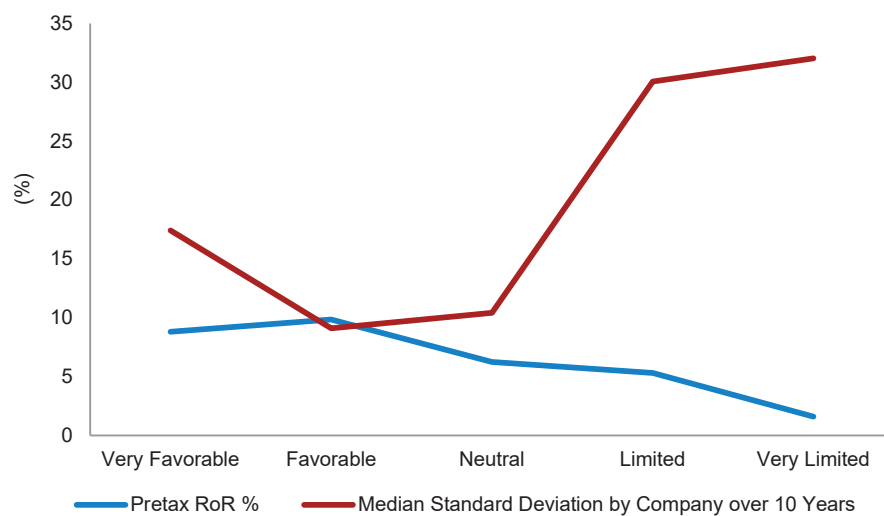
Source: **BESTLINK**

Exhibit 5
Business Profile Assessment Distributions by Capital and Surplus



Source: **BESTLINK**

Exhibit 6

Median 5-year Pretax ROR and Volatility by Business Profile AssessmentSource: 

Published by AM Best
BEST'S SPECIAL REPORT

A.M. Best Company, Inc.
 Oldwick, NJ

CHAIRMAN, PRESIDENT & CEO Arthur Snyder III
SENIOR VICE PRESIDENT & TREASURER Cynthia Young
SENIOR VICE PRESIDENT Lee McDonald

A.M. Best Rating Services, Inc.
 Oldwick, NJ

PRESIDENT James Gillard
EXECUTIVE VICE PRESIDENT & COO Stefan W. Holzberger
EXECUTIVE VICE PRESIDENT & CSO Andrea Keenan
EXECUTIVE VICE PRESIDENT & CIO James F. Snee
SENIOR MANAGING DIRECTOR & CHIEF RATING OFFICER Kenneth Johnson
SENIOR MANAGING DIRECTOR Edward H. Easop

AMERICAS

WORLD HEADQUARTERS
 A.M. Best Company, Inc.
 A.M. Best Rating Services, Inc.
 1 Ambest Road, Oldwick, NJ 08858
 Phone: +1 908 439 2200

MEXICO CITY

A.M. Best América Latina, S.A. de C.V.
 Av. Paseo de la Reforma 412, Piso 23,
 Col. Juárez, Alcaldía Cuauhtémoc, C.P. 06600, México, D.F.
 Phone: +52 55 1102 2720

EUROPE, MIDDLE EAST & AFRICA (EMEA)

LONDON

A.M. Best Europe - Information Services Ltd.
 A.M. Best Europe - Rating Services Ltd.
 12 Arthur Street, 8th Floor, London, UK EC4R 9AB
 Phone: +44 20 7626 6264

AMSTERDAM

A.M. Best (EU) Rating Services B.V.
 NoMA House, Gustav Mahlerlaan 1212, 1081 LA Amsterdam, Netherlands
 Phone: +31 20 308 5420

DUBAI*

A.M. Best Europe - Rating Services Ltd. - DIFC Branch*
 Office 102, Tower 2, Currency House, DIFC
 P.O. Box 506617, Dubai, UAE
 Phone: +971 4375 2780

*Regulated by the DFSA as a Credit Rating Agency

ASIA-PACIFIC

HONG KONG

A.M. Best Asia-Pacific Ltd
 Unit 4004 Central Plaza, 18 Harbour Road, Wanchai, Hong Kong
 Phone: +852 2827 3400

SINGAPORE

A.M. Best Asia-Pacific (Singapore) Pte. Ltd
 6 Battery Road, #39-04, Singapore
 Phone: +65 6303 5000



Best's Financial Strength Rating (FSR): an independent opinion of an insurer's financial strength and ability to meet its ongoing insurance policy and contract obligations. An FSR is not assigned to specific insurance policies or contracts.

Best's Issuer Credit Rating (ICR): an independent opinion of an entity's ability to meet its ongoing financial obligations and can be issued on either a long- or short-term basis.

Best's Issue Credit Rating (IR): an independent opinion of credit quality assigned to issues that gauges the ability to meet the terms of the obligation and can be issued on a long- or short-term basis (obligations with original maturities generally less than one year).

Best's National Scale Rating (NSR): a relative measure of credit-worthiness in a specific local jurisdiction that is issued on a long-term basis and derived exclusively by mapping the NSR from a corresponding global ICR using a transition chart.

Rating Disclosure: Use and Limitations

A Best's Credit Rating (BCR) is a forward-looking independent and objective opinion regarding an insurer's, issuer's or financial obligation's relative creditworthiness. The opinion represents a comprehensive analysis consisting of a quantitative and qualitative evaluation of balance sheet strength, operating performance, business profile, and enterprise risk management or, where appropriate, the specific nature and details of a security. Because a BCR is a forward-looking opinion as of the date it is released, it cannot be considered as a fact or guarantee of future credit quality and therefore cannot be described as accurate or inaccurate. A BCR is a relative measure of risk that implies credit quality and is assigned using a scale with a defined population of categories and notches. Entities or obligations assigned the same BCR symbol developed using the same scale, should not be viewed as completely identical in terms of credit quality. Alternatively, they are alike in category (or notches within a category), but given there is a prescribed progression of categories (and notches) used in assigning the ratings of a much larger population of entities or obligations, the categories (notches) cannot mirror the precise subtleties of risk that are inherent within similarly rated entities or obligations. While a BCR reflects the opinion of A.M. Best Rating Services, Inc. (AM Best) of relative creditworthiness, it is not an indicator or predictor of defined impairment or default probability with respect to any specific insurer, issuer or financial obligation. A BCR is not investment advice, nor should it be construed as a consulting or advisory service, as such; it is not intended to be utilized as a recommendation to purchase, hold or terminate any insurance policy, contract, security or any other financial obligation, nor does it address the suitability of any particular policy or contract for a specific purpose or purchaser. Users of a BCR should not rely on it in making any investment decision; however, if used, the BCR must be considered as only one factor. Users must make their own evaluation of each investment decision. A BCR opinion is provided on an "as is" basis without any expressed or implied warranty. In addition, a BCR may be changed, suspended or withdrawn at any time for any reason at the sole discretion of AM Best.