



CHICAGO2025
RISKWORLD
MAY 4-7
POWERED BY 75 RIMS

ENGAGE TODAY.
EMBRACE TOMORROW.

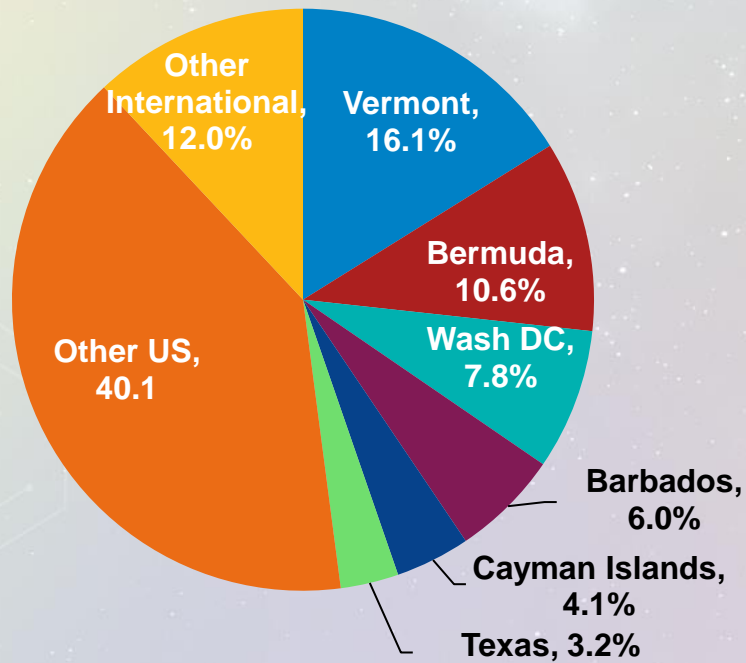
1950 **75** 2025
YEARS

Unlocking the Power of Captive Benchmarking

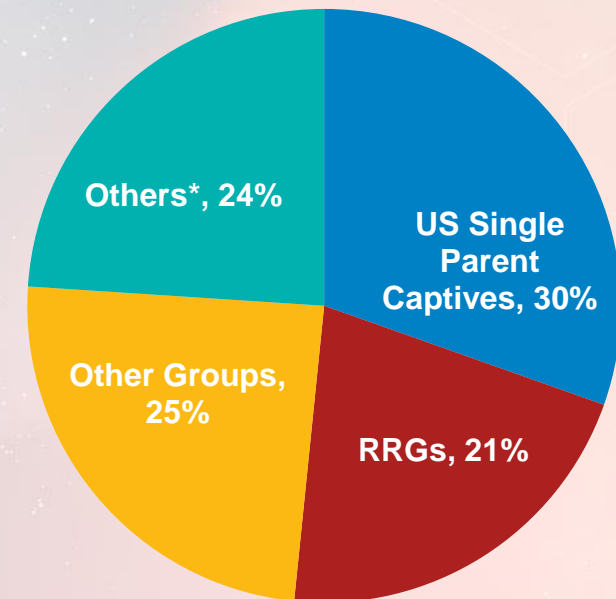
Kourtnie Beckwith, Senior Financial Analyst, AM Best

AM Best Rated Captives Overview

AM Best's Rated Global Captives, by Domicile

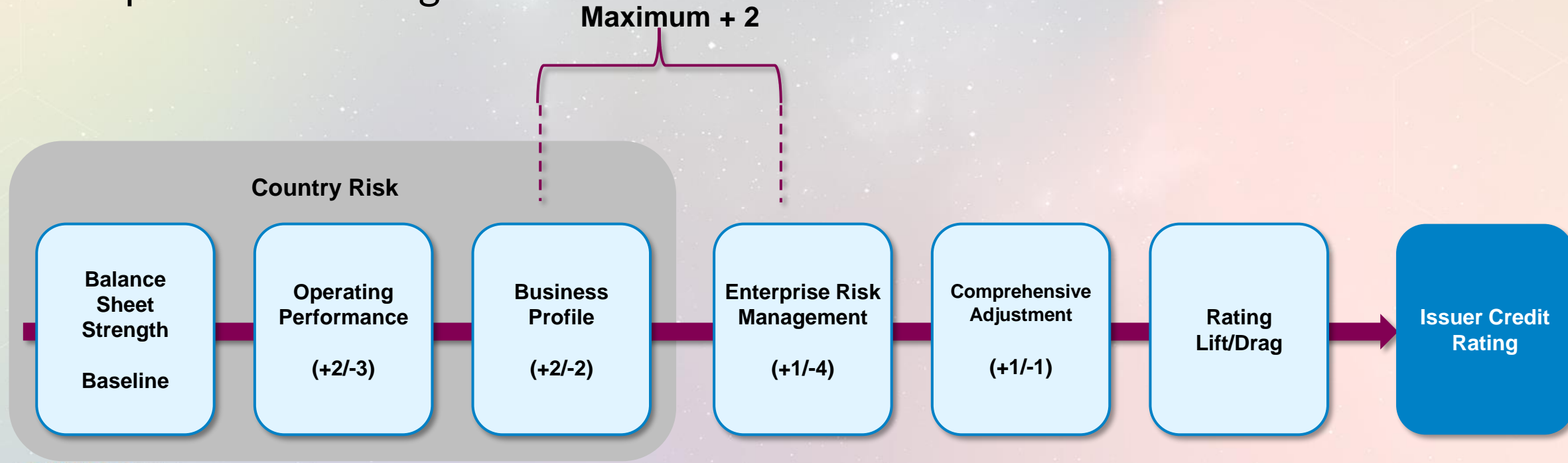


AM Best's Rated Global Captives, by Type



AM Best Rating Overview

- ▶ Fundamental rating drivers are
 - Balance Sheet Strength
 - Operating Performance
 - Business Profile
 - Enterprise Risk Management



Balance Sheet Strength

Country Risk

Balance Sheet Strength
Baseline

Operating Performance
(+2/-3)

Business Profile
(+2/-2)

Enterprise Risk Management
(+1/-4)

Comprehensive Adjustment
(+1/-1)

Rating Lift/Drag

Issuer Credit Rating

Balance Sheet Strength Components

- BCAR
- Stress Tests
- Liquidity
- Asset-Liability Management
- Internal Capital Models
- Quality of Capital
- Quality of Reinsurance
- Reinsurance Dependence
- Appropriateness of Reinsurance Program
- Financial Flexibility

Balance Sheet Strength Baseline Assessment

Strongest a+/a

Very Strong a/a-

Strong a-/bbb+

Adequate bbb+/bbb-

Weak bb+/bb-

Very Weak b+ and below



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Best's Capital Adequacy Ratio (BCAR)

- Primary quantitative tool used to evaluate balance sheet strength is BCAR

$$\text{BCAR} = \left(\frac{\text{Available Capital} - \text{Net Required Capital}}{\text{Available Capital}} \right) \times 100$$

Best's Capital Adequacy Ratio (BCAR) Cont.

- Primary quantitative tool used to evaluate balance sheet strength is BCAR.

VaR Confidence Level (%)	BCAR	BCAR Assessment
99.6	> 25 at 99.6	Strongest
99.6	> 10 at 99.6 & ≤ 25 at 99.6	Very Strong
99.5	> 0 at 99.5 & ≤ 10 at 99.6	Strong
99	> 0 at 99 & ≤ 0 at 99.5	Adequate
95	> 0 at 95 & ≤ 0 at 99	Weak
95	≤ 0 at 95	Very Weak

- Established SPCs typically have BCARs in the 60-80 range due to ability over time to grow surplus for low frequency, high severity events that hold up well in stress tests
- Newer SPCs often have BCARs that are in the 25-50 range but reflect weakness in stress tests due to high retention to surplus ratios
- RRG BCARs are regularly 35-60 and readily withstand stress tests due to their generally low retention to surplus ratios, as they cover high frequency, lower severity events

Capitalization

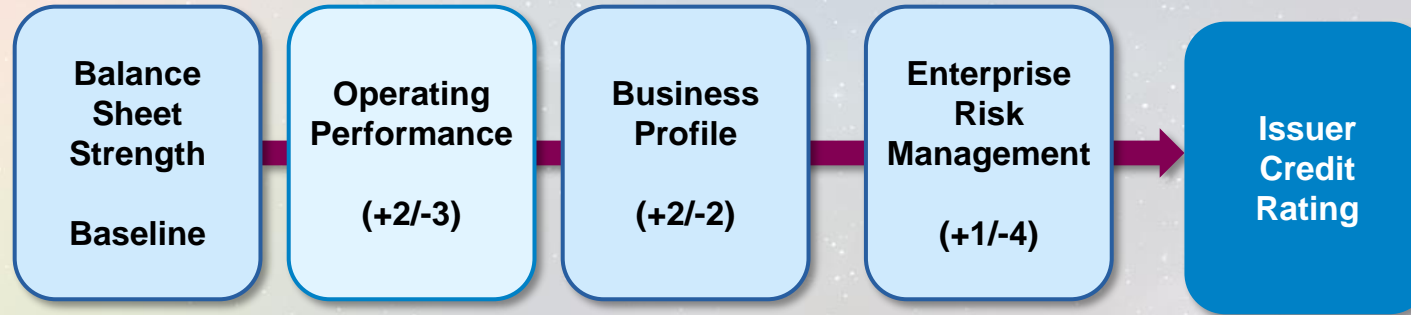
- AM Best rated captives show favorable trend with surplus growth.

US CIC – Policyholders' Surplus (\$ millions)

	2019 PHS	2023 PHS	Increase	Stock and Policyholder Dividends	Total Savings
SPCs	10,992	14,008	3,016	1,525	4,541
RRGs	2,860	3,242	383	121	503
All Other Rated Captives	11,763	12,682	919	345	1,264
Total Rated Captives	25,614	29,933	4,318	1,991	6,309



Operating Performance



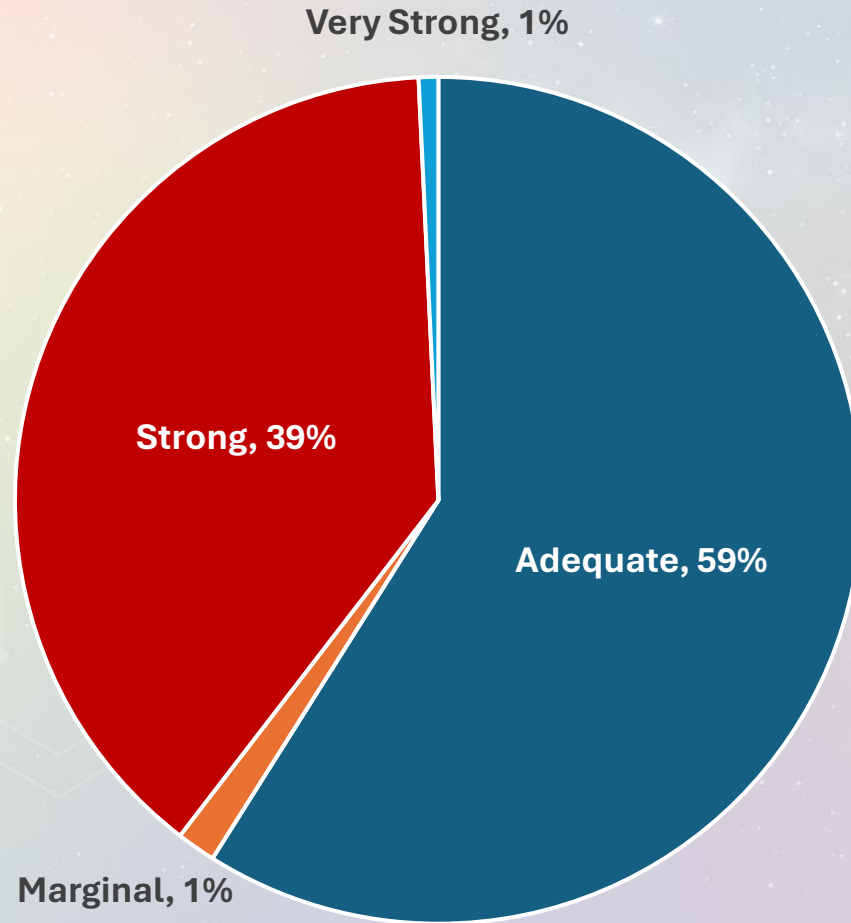
Underwriting Performance
<ul style="list-style-type: none">• Loss Ratio• Expense Ratio• Combined Ratio

Investment Ratio
<ul style="list-style-type: none">• Net Yield• Pre-Tax Total Return

Total Operating Earnings
<ul style="list-style-type: none">• Pre-Tax ROR• Operating Ratio• Operating ROE

Operating Performance (+2/-3) Assessment
Very Strong +2
Strong +1
Adequate 0
Marginal -1
Weak -2
Very Weak -3

Operating Performance Assessment Distribution



- ▶ Strongs are mostly single parent captives, charging appropriate premium for low frequency / high severity risks and having very low expense ratios.
- ▶ Very Strongs tend to have the attributes as Strongs plus a relatively high contribution from net investment income.
- ▶ Marginals tend to be RRGs losing members and/or premium, increasing expense ratios, with persistently higher loss ratios.

AMB Rated Captive Insurance Companies vs. Commercial Casualty Companies

Ratio Analysis, 2019 - 2023 (%)

	Loss & LAE	Underwriting Expense	Combined (Ex Div)	Policyholder Dividends	Net Inv. Ratio	Operating Ratio
2019	64.9	19.5	84.4	17.7	20.7	81.5
2020	68.4	18.9	87.3	11.8	16.4	82.8
2021	66.3	19.2	85.5	14.8	12.8	87.5
2022	64.5	16.4	80.9	4.8	14.4	71.3
2023	73.3	17.9	91.1	6.4	20.2	77.3
5 Yr. Avg. (CIC)	67.8	18.2	86.0	10.7	17.0	79.6
5 Yr. Avg. (CCC)	68.8	28.7	97.5.	0.2	10.8	86.9

- ▶ CIC is AM Best's Captive Insurance Composite – a blend of SPC, group captives, and RRGs
- ▶ CIC performance is 'barbelled' in its composition – lower combineds from SPCs and relatively higher combineds from group captives and RRGs
- ▶ In aggregate, they compare quite favorably to the Commercial Casualty Composite



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Source: AM Best data and research

Single Parent Captives Outperform Commercial Casualty Cos.

SPC Composite vs. CCC – Profitability Analysis, 2019-2023 (%)

Year	Inv Yield	NII (W/ RCG)	Total ROIA	POI/ NPE	NI/ NPE	Total ROR	POI/ PHS	NI/ PHS	Total ROE	Loss & LAE	Under-writing Expense	Operating Ratio
2019	3.2	3.6	3.7	54.1	46.0	46.5	9.3	7.9	8.0	62.3	11.1	48.5
2020	2.0	2.5	2.6	49.3	43.5	43.6	7.9	7.0	7.0	59.3	9.0	51.6
2021	.0.9	1.2	1.3	38.8	33.1	33.6	6.1	5.2	5.3	61.6	9.0	62.7
2022	1.7	1.7	1.3	49.4	40.3	37.2	7.9	6.4	6.0	54.6	7.9	48.5
2023	3.7	3.8	3.8	37.9	30.0	30.3	8.7	6.9	7.0	74.8	8.7	62.0
5 Yr. Avg. (SPC)	2.3	2.6	2.5	44.9	37.5	37.2	8.0	6.7	6.6	63.9	9.0	55.4
5 Yr. Avg. (CCC)	3.5	3.6	4.1	12.1	10.3	11.5	10.9	9.2	10.3	68.8	28.7	86.9

- ▶ Appropriate loss ratios / low expense ratios / benefits from net investment income
- ▶ Consistently strong revenue returns help build surplus or avail dividends, when appropriate
- ▶ Low ROEs reflect strong surplus and capitalization for low frequency, high severity events



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Source: AM Best data and research

RRG Underwriting Performance in Line with Casualty Composite

RRG Composite vs. CCC – Profitability Analysis, 2019 - 2023 (%)

Year	Inv Yield	NII (W/ RCG)	Total ROIA	POI/ NPE	NI/ NPE	Total ROR	POI/ PHS	NI/ PHS	Total ROE	Loss & LAE	Under-writing Expense	Operating Ratio
2019	2.7	4.2	7.7	15.9	21.2	38.8	4.8	6.3	11.6	70.0	26.9	84.1
2020	2.4	3.6	5.9	15.1	20.0	31.5	4.4	5.9	9.2	71.0	24.4	84.1
2021	2.1	3.6	3.7	12.6	18.9	19.9	3.8	5.7	6.0	70.2	25.1	87.6
2022	2.2	1.1	-6.2	10.7	3.6	-30.6	3.5	1.2	-10.0	76.0	21.7	88.8
2023	2.9	3.6	5.8	14.8	15.6	26.2	5.3	5.6	9.4	73.9	24.1	86.2
5 Yr. Avg. (RRG)	2.5	3.2	3.2	13.7	15.5	16.0	4.3	4.9	5.1	72.4	24.3	86.3
5 Yr. Avg. (CIC)	2.3	3.0	3.3	19.9	20.4	22.9	4.1	4.2	4.7	67.8	18.2	79.6
5 Yr. Avg. (CCC)	3.5	3.6	4.1	12.1	10.3	11.5	10.9	9.2	10.3	68.8	28.7	86.9

- ▶ RRGs strive to keep premium lower for members, driving higher loss ratios
- ▶ Expenses still well-managed in attracting new members
- ▶ Knowledge-sharing for loss prevention and mitigation helps RRGs keep premiums lower for members, modestly increasing loss ratios



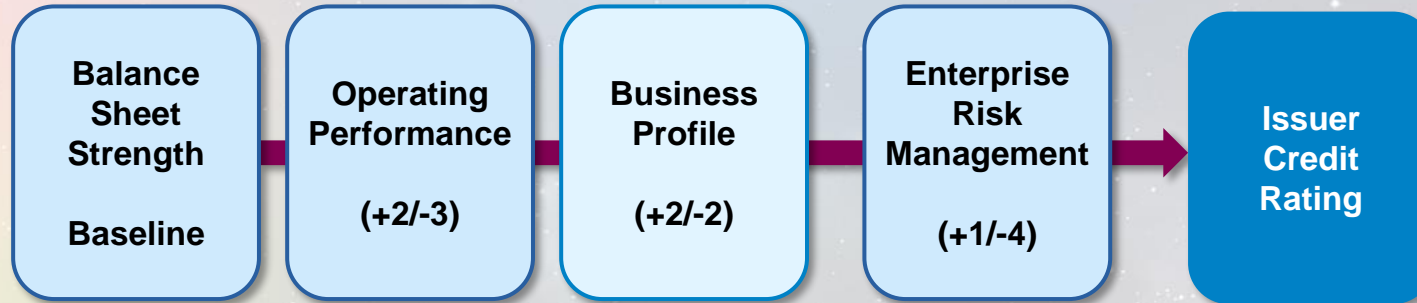
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Business Profile



Business Profile Components		
<ul style="list-style-type: none"> • Market Position • Degree of Competition • Product/Geographic Concentration 	<ul style="list-style-type: none"> • Management Quality • Distribution Channels • Regulatory, Event, Market, and Country Risk 	<ul style="list-style-type: none"> • Product Risk • Innovation • Pricing Sophistication and Data Quality

Business Profile
(+2/-3)

Assessment

Very Favorable
+2

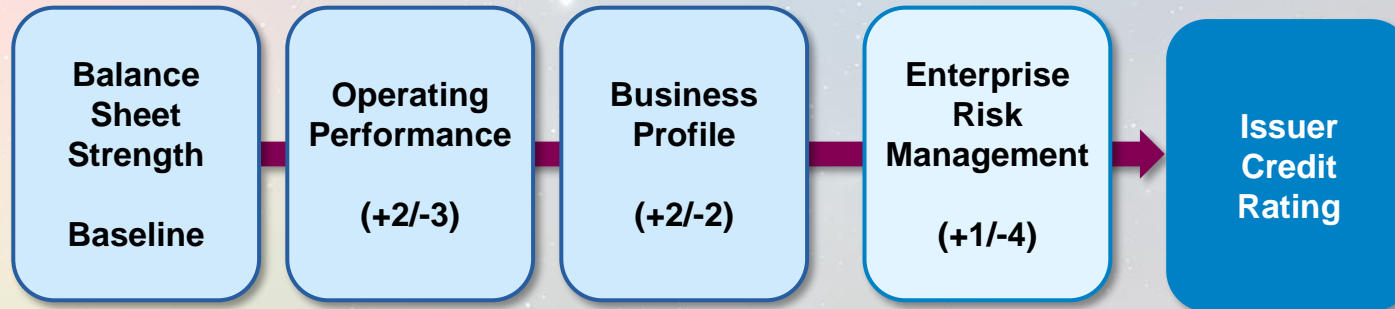
Favorable +1

Neutral 0

Limited -1

Very Limited -2

Enterprise Risk Management



Framework Evaluation	Framework Evaluation
<ul style="list-style-type: none"> • Risk Identification and Reporting • Risk Appetite and Tolerances • Stress Testing and Non-modelled Risks • Risk Management and Controls • Governance and Risk Culture 	<ul style="list-style-type: none"> • Product & Underwriting Risk • Reinsurance Risk • Legislative/Regulatory/Judicial/Economic Risk • Reserving Risk • Liquidity & Capital Management Risk • Operational Risk • Concentration Risk • Investment Risk

Enterprise Risk Management (+1/-4) Assessment
Very Strong +1
Appropriate 0
Marginal -1
Weak -2
Very Weak -3/4

Questions?

Contact us for more information!



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