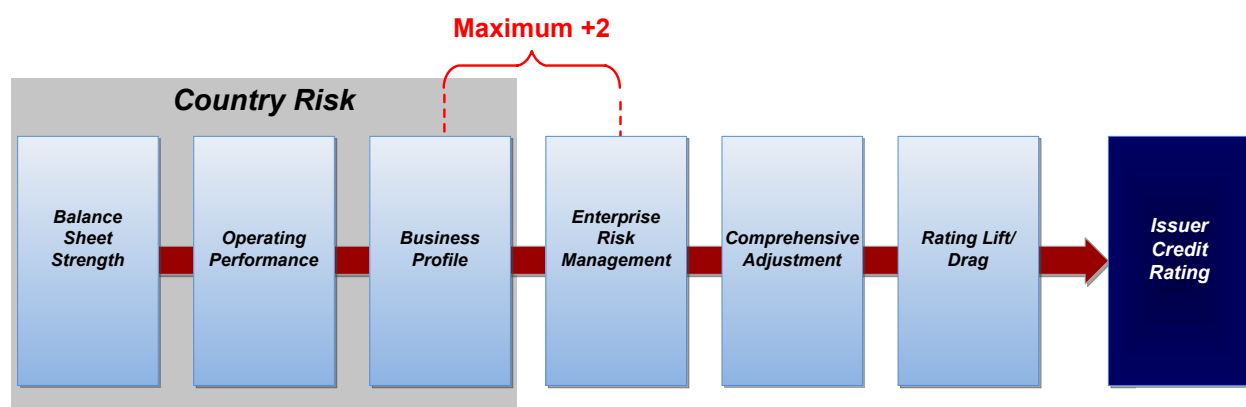


# Understanding BCAR for Canadian Property/Casualty Insurers

Exhibit A.1: AM Best's Rating Process



Thus, in many cases, insurers with similar capital positions might be assigned different ratings based on the integration of other key rating factors.

## Canadian P/C BCAR

This criteria procedure and its accompanying model are used in the evaluation of balance sheet strength for those property/casualty insurers that file Canadian financial statements.

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Calculating a rating unit's BCAR requires calculating its net required capital—namely the capital needed to support the financial risks of the rating unit associated with the exposure of its assets and underwriting to adverse economic and market conditions—and determining its capital available to support these risks. **Exhibit B.1** details the exact formula for calculating BCAR.

Exhibit B.1: The BCAR Formula

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

The BCAR model calculates a rating unit's net required capital at different confidence levels, resulting in a BCAR score for each of these levels. Since the difference between a rating unit's available capital and its net required capital is expressed as a ratio to available capital, a BCAR score expresses the extent of the excess or shortfall as a percentage of available capital. A positive score at a particular confidence interval indicates the rating unit's available capital is in excess of its net required capital, whereas a negative score indicates the rating unit's available capital has fallen short of its net required capital. **Exhibit B.2** contains a sample rating unit's BCAR calculations.