Understanding BCAR for Canadian Property/Casualty Insurers

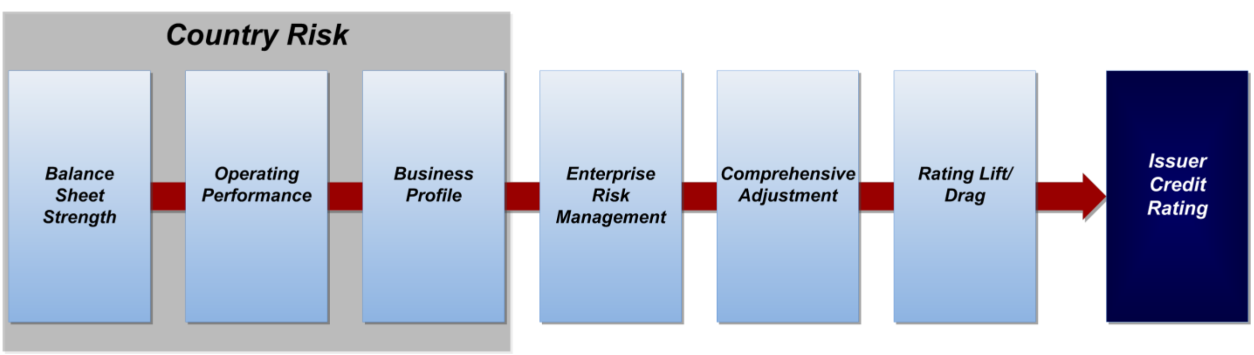
Outline

The following criteria procedure should be read in conjunction with *Best's Credit Rating Methodology (BCRM)* and all other related BCRM-associated criteria procedures. The BCRM provides a comprehensive explanation of A.M. Best Rating Services' rating process.

A. BCAR and the Rating Process

Best's Capital Adequacy Ratio (BCAR) depicts the quantitative relationship between a rating unit's balance sheet strength and its operating risks. As the foundation of financial security, balance sheet strength is critical to the determination of a rating unit's ability to meet its current and ongoing obligations. By establishing a guideline for the net required capital needed to support balance sheet strength, BCAR can assist analysts in differentiating among the financial strength of insurers and in determining whether a rating unit's capitalization is appropriate for its risk profile. The analysis of BCAR alone does not decide the balance sheet strength assessment. Other factors that can impact the balance sheet strength analysis include: liquidity, quality of capital, dependence on reinsurance, quality and appropriateness of reinsurance, asset/liability matching, reserve adequacy, stress tests, internal capital models, and the actions or financial condition of an affiliate and/or holding company, which may include a BCAR calculation at the holding company/consolidated level. Similarly, a rating is more than a balance sheet strength assessment and includes evaluations of a rating unit's operating performance, business profile, and enterprise risk management (**Exhibit A.1**).

Exhibit A.1: A.M. 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.