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Measuring and Assessing Insurance Company Performance

Simon Harris

Measuring and Assessing Insurance Company Performance : A Rating Agency's View

- Key rating drivers for rating agencies : how important is company performance?
- Performance measures that we use
- Features that we like about performance measures
- Improvements we would like to see

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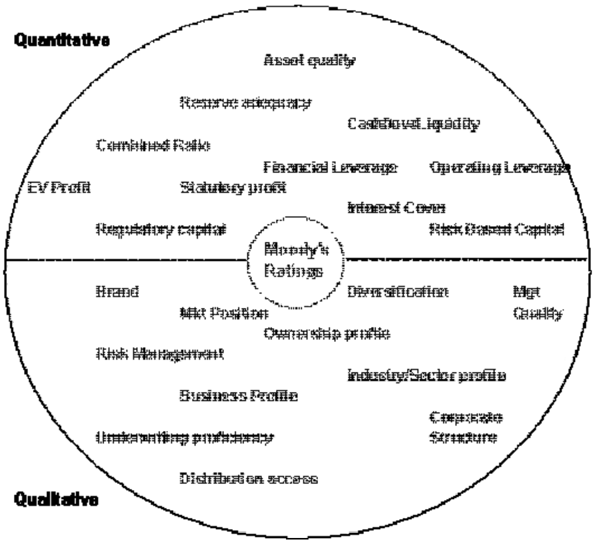
Key drivers for rating agencies : how important is operating performance



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Can Strong Performance Outweigh Negatives in Other Areas?

- There are examples, but need to be cases where
  - Performance is sustainable (Undue reliance on unrealised gain? Franchise? Capitalisation (to fund growth?))
  - We are confident that performance is 'as measured', i.e. not overstated
  - May need to be in conjunction with e.g. modest dividend policy (to ensure better capital creation); strong interest cover
  - ➢ Rating committee process ensures that all factors are given full review and unlikely for one to outweigh all others

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Top quantitative ratios (DRAFT) : where performance appears

	Life	P&C
Capitalisation	EU Solvency Risk-based measures Capital Quality	
Profitability	Statutory Profitability EEV NB profitability	Combined ratio Core Operating Margin
Financial Leverage	Adjusted Financial Leverage Interest / Fixed Charge cover	
Business Profile	Asset Rank Equities exposure	GPW Rank Equities exposure

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Other performance measures that didn't make it to the top 9….but we use

- **Return on equity / capital measures (RoRAC; RoEV)**
- **Shareholder values measures (particularly as they increasingly impact management decisions)**
- **Efficiency measures (expense ratios, investment returns)**
- **Capital efficiency measures (e.g. capital tiering)**
- **Liquidity / cashflow measures**
- **Technical efficiency measures (e.g. reserve run-off; catastrophe modelling)**

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Features we like about performance measures

- Objective / Audited
- Based on publicised data to largest extent (i.e. not internal measures, or at least with substantial disclosure)
- Timely
- Free from distortion (i.e. not influenced by excessive realised / unrealised gains)
- Reflective of underlying economics of business (EEV profit; non-life operating margins)
- Comparable across Companies and, ideally, Sectors

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Improvements we would like to see to performance measures

- EEV
  - We like EEV due to its ability to demonstrate economic value creation in 'real' time
  - But we need to see more consistency of assumption setting and guarantee costing methodologies before we can be fully reliant
- Return on capital
  - Similarly, we would like to be able to place more reliance (comparability) on RoRAC measures, through more harmonised approaches to capital quantification and allocation – Solvency II may help

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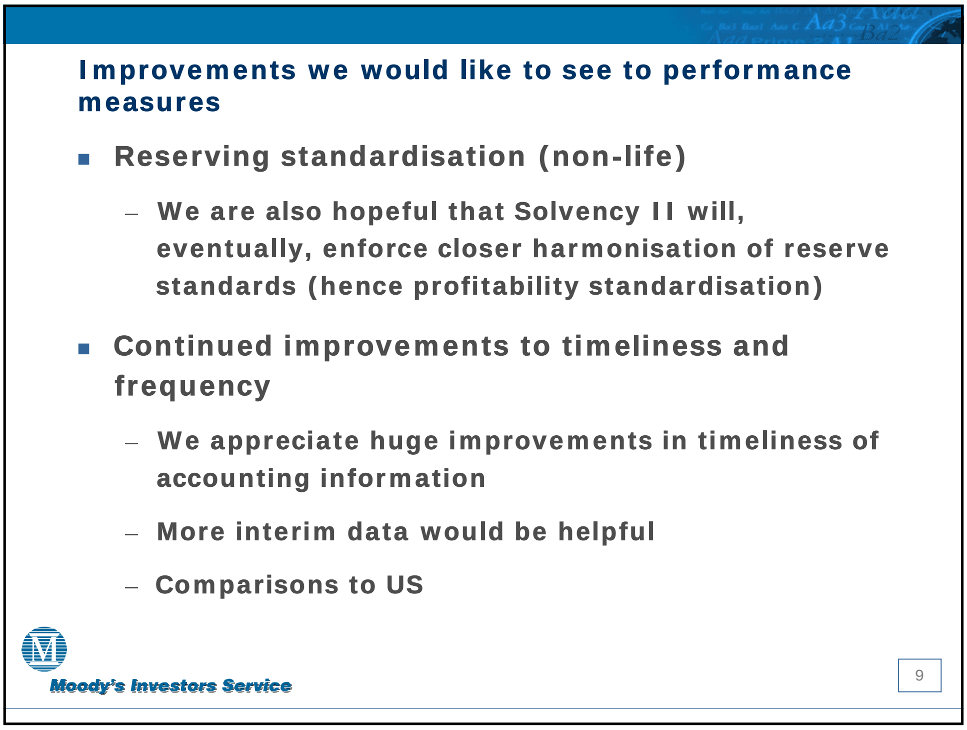
Improvements we would like to see to performance measures
Reserving standardisation (non-life)
We are also hopeful that Solvency II will, eventually, enforce closer harmonisation of reserve standards (hence profitability standardisation)
Continued improvements to timeliness and frequency
We appreciate huge improvements in timeliness of accounting information
More interim data would be helpful
Comparisons to US
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