



Quantitative Analysis Report

User's Guide – Life/Health Edition

Introduction

The Quantitative Analysis Report (QAR), developed by A.M. Best Co., was designed to provide the user with fundamental quantitative information, presented in a high-powered analytical format to evaluate an insurance company's financial strength, operating performance, and ability to meet its obligations to policyholders' currently and in the near future. Best's QARs provide users the basic quantitative framework from which A.M. Best approaches and evaluates a company's historic operating performance and financial condition, both in absolute terms as well as relative to appropriate industry composites.

Best's QARs, which are available for individual companies and groups, can be used as an invaluable source for comparing a company's operating performance and financial condition to specific peers and industry composites. The five-year financial presentation was designed to allow company analysts to perform trend analysis, financial planning and review, and competitive benchmarking. In addition, the QAR is an excellent tool for security analysts who are interested in assessing the credit-worthiness and financial strength of an insurance company.

Overview of Best's Rating Process

While Best's QAR is an important analytical tool used in the rating process, several other significant tools are utilized by Best's insurance analysts, including Best's proprietary Capital Adequacy Model (BCAR). In addition, other quantitative considerations drawn from Supplemental Rating Questionnaires, which contain critical and confidential information provided by companies, are factored into Best's quantitative rating evaluation. Lastly, Best's QAR does not incorporate any qualitative considerations, such as a company's competitive market position, its future business plans or management competence, which play a critical role in Best's overall assessment of an insurer's financial strength and operating performance.

Together, our quantitative and qualitative evaluations form the basis of Best's Ratings. For a detailed explanation of Best's Rating system, along with a complete discussion of our quantitative and qualitative evaluations, refer to the Preface of the Current editions of *Best's Insurance Reports* or *Best's Key Rating Guide*.

Quantitative Evaluation of Profitability

Why Evaluate Profitability?

Profitable insurance operations are essential for a company to prosper as a going concern. The level, degree of stability and trend of profitability indicates the ability and competence of management to develop competitively priced products, achieve a prudent level of asset risk, attract and retain policyholders and function efficiently to provide fair returns to stockholders and policyholders. Profitability is a key component of capital and surplus enhancement, thereby playing an important role as a cushion against adverse events.

To assess a company's level of profitability, the A.M. Best Company recommends the review of a company's statutory earnings over at least a five-year period in order to make an evaluation of the source(s) of profits and the degree and trend of various profitability measures. The fundamental factors affecting profitability include, but are not limited to, levels and mix of business written; investment philosophy and performance both on the absolute basis and relative to the liability structure; expense management; mortality/morbidity experience; business persistency; the level, purpose and quality of reinsurance; conservatism in reserving methodology; taxes; and regulatory constraints. These factors play a varying role based on the type of products a company offers.



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How Is Profitability Analyzed with Best's QAR?

Profitability Ratios

(Refer to QAR Page 1)

This section measures key profitability ratios on a one, three and five-year basis. The one and multi-year return on revenue ratios are designed to measure a company's earnings performance relative to its book of business and revenue stream. Additionally, the five-year returns on assets and equity evaluate profits on a total-return basis by assuming that over an extended period of time capital gains/losses may play a vital part in pricing, especially interest sensitive products.

Return on Revenue: The one-year return on revenue measures the post-tax net operating gain as a percentage of total revenue. The three and five-year returns on revenue measure the three and five-year sum of post-tax net operating gains as a percentage of the equivalent year sum of total revenue. These ratios are particularly appropriate for measuring profitability of accident and health companies, which generally do not build a large volume of reserves or assets.

Return on Assets: The one-year return on assets measures the post-tax net operating gain as a percentage of the average of the prior two years' total admitted assets. The three-year and five-year return on assets calculations measure the equivalent year sum of post-tax net operating gains, plus the same year sum of both realized and unrealized capital gains/losses as a percentage of the same average sum of total assets. These ratios are appropriate for measuring the profitability of long-term insurance writers, which generally build larger asset bases. To measure profitability under a total return basis, a review of the impact of realized and unrealized capital gains/losses on profitability should be made while reviewing the five-year return on assets.

Return on Capital: The one-year return on capital measures the post-tax net operating gain as a percentage of the average of the prior two years' capital, surplus, and asset valuation reserve. It should be noted that a well-capitalized company may appear to have a weaker return on capital because of its large capital base, while the opposite may hold true for a weakly capitalized company because of the smaller capital base.

Return on Equity: The one-year return on equity measures the post-tax net operating gain as a percentage of the average of the prior two years' capital and surplus. The three and five-year return on equity calculations measure the total of post-tax net operating gains, realized and unrealized capital gains for these periods relative to the average of the prior three and five year's capital and surplus respectively. It should be noted that a well-capitalized company may appear to have a weaker return on equity because of its large surplus base, while the opposite may hold true for a weakly capitalized company because of the smaller surplus base.

Income Statement & Capital and Surplus Account

(Refer to QAR Pages 1 and 2)

This section tracks the profitability drivers for the company as well as the development of the capital and surplus account. A company that markets a portfolio of highly competitive and less stable products, and consequently maintains a risky investment profile, should have a greater degree of capital and surplus flexibility relative to a company that has a conservative and stable product portfolio and a clean balance sheet.

Net Underwriting Income: Income from operations after benefits and expenses excluding net investment income. Evaluation of underwriting income is essential for companies in the accident and health insurance market due to the generally short-term structure of their liabilities. Since net investment income plays a major role in the pricing of long-term insurance products, net underwriting income is not as important in the evaluation of such products. However, the trend in net underwriting income is useful in assessing a company's performance in the areas of expense control, mortality/morbidity and persistency.



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Net Investment Income: Investment income that was earned during the year less investment expenses and depreciation on real estate. Companies marketing long-term insurance products generally maintain a larger asset base, which results in higher levels of investment income. Normally, the level of investment income is commensurate with the risk profile of a company's balance sheet. Growth in investment income, as well as the adverse impact of nonperformance and write-down of investments on a company's investment income, is reviewed.

Pre-Tax Net Operating Gain: Net premium income, net investment income and miscellaneous income less benefit payments, expenses, reserve changes and policyholder dividends, but before income taxes and capital gains/losses.

Net Operating Gain: Bottom-line profitability after taxes. In reviewing the level and trend of operating profits, additional insight can be gained from a thorough review of the key components of underwriting and investment performance.

Realized Capital Gains/Losses: Gains or losses realized upon the disposal of investments during the year. A company may take advantage of prevailing market conditions by selling its speculative or risky investments. Although this action can improve a company's balance sheet profile, it can cause a potential asset/ liability mismatch and/or reduce the return on reinvested funds. Therefore, review of the motivation behind the disposal of assets and subsequent reinvestment risk should be made. Through the interest maintenance reserve (IMR), capital gains/losses that are realized on fixed income securities and mortgage loans due to a fall or rise in interest rates will be amortized into investment income based on the scheduled maturity date of the disposed asset. This results in delaying income recognition similar to the original maturity of the asset as if it had never been sold.

Net Income: Net operating gain, after taxes, plus realized capital gains/losses on investments after capital gains tax and excluding the amount transferred to the IMR.

Unrealized Capital Gains/Losses: Appreciation or loss in the carrying value of invested assets, from the prior year-end or from the purchase date if less than one year, due to changes in market conditions of the issues. The write-down of specific asset classes due to a downturn in the economy can result in substantial unrealized capital losses.

Change in Asset Valuation Reserve (AVR): The result of changes to the reserve insurers are required to establish to cushion fluctuations in the admitted asset values of bonds and stocks, which may have serious effects on the surplus of the life insurance company. The reserve cushions the effect of changes in the market values, with adjustments for any realized or unrealized capital gains or losses during the year.

Change in Reserve Valuation: The changes to reserve valuation basis as reported on Exhibit 5A will impact the surplus of the life insurance company.

Capital Contribution: The net result of capital or surplus infusions. This component tracks the source of capital contributions such as parental support, issuance of surplus notes or debentures, off-balance sheet debt and public stock offerings.

Stockholder Dividends: Distribution of earnings to the owner(s) of the company. The amount, trend and predictability of this component should be evaluated in great detail along with debt service requirements for debt at the parent company level and its impact on the financial flexibility of the subject company.

Year-end Capital and Surplus: This amount is affected by increases and decreases in the aforementioned areas and changes in the Asset Valuation Reserve (AVR) and reserve valuation, along with other changes.



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Income Statement Analysis

(Refer to QAR Page 2)

Year-to-Year Percent Change: Shows the year-to-year changes in net investment income, pre-tax net operating gain, net operating gain, net income, and capital and surplus. These ratios are helpful tools in the trend analysis of key profitability and capitalization measures. Varying emphasis is placed on these ratios depending on the lines of business in which a company operates. Additionally, a company's relative position within an economic and underwriting cycle or growth phase could significantly affect these ratios.

Net Operating Gain By Line

(Refer to QAR Pages 2 and 3)

This section tracks the five-year trend in the company's earnings and the sources of earnings by major product category on both a pre-tax and post-tax basis.

Profitability by Line

(Refer to QAR Page 3)

The return on asset and return on revenue ratios are shown for key product lines as reported in the company's statutory statement.

Premiums and Reserves By Line

(Refer to QAR Page 4)

This section shows total direct premiums written, net premiums written and deposits, and total reserves maintained by line over the past five years. This page gives an overview on the relative premium volume of a company in its core lines, as well as its growth trends and concentration in each particular line of its business.

Analysis of Total Life Operations

(Refer to QAR Page 5)

This section provides a comprehensive review of the total life insurance segment by analyzing certain ratios pertaining to the combined ordinary, industrial, group, and credit life insurance lines of business. Monitoring these ratios provides a review of how each component favorably or unfavorably affects profitability in total, with many of these ratios replicated for each type of life insurance product written.

Some of the ratios presented include:

Tabular Mortality: The actual cost of mortality, measured by subtracting reserves released by death from death benefits paid, divided by the reserves established for mortality at the beginning of the year (as noted by tabular cost). Deteriorating mortality results could signify relaxed underwriting standards or revised pricing by the company.

Total Benefits to Net Premium Written: Total benefits paid as a percentage of net premium written. Benefits paid include death benefits, matured endowments, annuity benefits, accident and health benefits, disability and surrender benefits, group conversions, coupons and payments on supplementary contracts, interest on policy or contract funds and other miscellaneous benefits.



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Life Premium Ceded to Life Gross Premium Written: Life premium ceded to direct written premium plus reinsurance assumed provides a view of the amount of life insurance risk retained by the company.

An analysis of each particular life insurance segment is also broken out for its own key ratios including tabular mortality, premium trends, average policy size and general growth trends. These sections also evaluate the impact of each individual component on the total profit record of a company.

Analysis of Ordinary Life Operations

(Refer to QAR Pages 5 and 6)

This section provides detailed results for the ordinary life insurance segment, including an analysis of first-year, single premium and renewal premium trends, lapse ratios, average policy size and general growth trends.

Key Ratios include:

Number of Policies Issued and Inforce by count and volume of insurance: These values show growth or decline in a company's individual insurance business.

General Expenses to Number of Policies: This ratio provides a measure of the average cost per ordinary life policy in force.

Lapse Ratio: Several lapse ratios are presented including the NAIC ratio as has historically been included in the NAIC statutory statement and Best's Lapse Ratio, as published in Best's Insurance Reports. Favorable persistency is essential in achieving required profit margins. Higher lapses can result from a change in operational focus, movement into a different target market, growth in new business activity or weakening of policyholder confidence.

Analysis of Annuity Operations

(Refer to QAR Page 7)

This section tracks the general account (fixed or equity-indexed) annuity portfolio for both individual and group annuities. In addition, variable annuity premiums, which are reported in the general account, are also shown in the QAR. However, variable product reserves are transferred to the separate account statement of the insurance company and as such are not included in the general account annuity reserves. Please note that separate account reserves and other financial activity is reported in the Separate Account Data section in the QAR.

To maintain profitability on general account annuities, a company must price for investment, mortality and expense risk. Evaluation of investment risk requires analysis of the adequacy of spreads between earned and credited rates; stability of funds; disintermediation, default, interest rate, reinvestment and liquidity risks. Mortality risk for an annuity company deals with minimum income guarantees. Expense risk depends on product design and volume. To properly assess annuity profitability, a careful review of the asset and liability structure of a company must be conducted.

Various ratios are presented, including:

Withdrawal Characteristics: Details the distribution of general account annuity liabilities by surrender options available to the policyholder and consequently, the insurance company's exposure to disintermediation risk.

Expenses to Reserves: Illustrates the costs associated with administering the book of annuity liabilities relative to the size of the block of business.

Benefits to Net Premiums Written: Tracks the maturity and persistency of the annuity block of business.

Retention: Tracks the historical persistency of the block of individual annuity contracts.

Separate Account Data



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(Refer to QAR Pages 7 and 8)

This section tracks the activity within a company's separate accounts by product line, including both balance sheet and income statement trends.

Analysis of Accident & Health Operations

(Refer to QAR Pages 9 and 10)

This section tracks the loss and expense experience of a company's accident and health operations by product line. The review of five years of underwriting results assists in determining the position of a company within an underwriting cycle. Investment income plays an important role in pricing a long-term insurance product while underwriting results (operating gains before investment income) are evaluated prominently in the review of short-tailed accident and health business.

Accident & Health Loss Ratio: Total accident and health claims incurred, plus the total increase in accident and health policy reserves as a percentage of total accident and health premiums earned.

Accident & Health Expense Ratio: Total accident and health expenses, including commissions, general insurance expenses and taxes, licenses and fees, as a percentage of total accident and health premiums written.

Accident & Health Combined Ratio: The sum of the total accident and health loss ratio plus the total accident and health expense ratio. This ratio indicates whether or not the company is earning a profit on its accident and health lines, before taking into consideration investment returns on accident and health premiums and reserves. A combined ratio of less than 100 generally indicates that a company is generating an underwriting profit.

Accident & Health Claim Reserve Deficiency: The claim reserve deficiency is a measure of claims paid during the year on claims incurred in prior years to the current year, plus claim reserves and liabilities at year-end of current year established for claims incurred prior to current year. A claim reserve deficiency indicates that a company has under reserved for prior year business.

Additional exhibits are presented to provide an in-depth analysis. These include reserve analysis tables and segmented analysis to show trends for both individual and group accident and health contracts.

Analysis of Total Credit Operations

(Refer to QAR Page 11)

This section measures the growth and profitability of the credit life and credit accident and health segments within a company, as well as the combined credit insurance line of business. A company's credit insurance operations are greatly influenced by the strength of the economy, as lending activity is driven by the interest rate environment and consumer demand for large ticket items, and a company's relationships with major providers of credit.



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Quantitative Evaluation of Asset Quality and Liquidity

Why Evaluate Asset Quality and Liquidity?

Liquidity measures a company's ability to meet its anticipated short and long-term policyholder and other financial obligations on a statutory basis. Liquidity analysis is aimed at evaluating major sources of liquidity including underwriting cash flow, investment income and asset liquidation.

A.M. Best's review of a company's financial strength places great emphasis on the balance sheet composition of companies. Assets consist of investments in bonds, stocks, mortgages, real estate and other assets. The composition and quality of the entire asset portfolio in relation to the liability structure and the prevailing economic environment, as well as the total amount invested in specific issues is analyzed. It is also important to analyze the underlying quality of the balance sheet by reviewing the diversification and appropriateness of the investments.

Since all non-investment grade bonds and derivative programs maintain unique risk profiles, the asset-liability matching, quality of issuers, call provisions, hedging strategies, industry diversification and management's investment expertise and performance in these areas are evaluated. In addition, vast differences in risk characteristics of mortgage portfolios lead us to consider the unique qualities of these investments. While reviewing the common stock portfolio, attention should be paid to the diversification and industry concentrations as well as affiliated holdings of a company.

The economic environment has a significant impact on the market value of an asset portfolio. A company maintaining substantial positions in equity or speculative holdings and surrenderable liabilities needs to maintain an appropriate level of liquid assets and a strong capital base to mitigate the balance sheet risk.

In reviewing liquidity, a company's product portfolio should be evaluated in great detail. Favorable quick liquidity and positive cash flow are important for a company which maintains risky investments and markets short-term products. However, quick liquidity and cash flow are less important to a company with a relatively low-risk balance sheet and a long-term product portfolio.

How Is Asset Quality and Liquidity Analyzed by Best's QAR?

Distribution of Invested Assets

(Refer to QAR Page 12)

A distribution of invested assets is presented for five years for bonds, preferred and common stock, mortgage loans, real estate, policy loans cash, and short-term investments, and other invested assets. In addition, the distribution of investment income by asset is presented to explain and show trends within the investment portfolio.

Liquidity Tests

(Refer to QAR Page 12)

Liquidity tests measure a company's ability to satisfy its financial obligations without resorting to borrowing funds or selling long-term investments. Quick liquidity measures the amount of cash and quickly convertible investments which have a low exposure to fluctuations in market value. Current liquidity measures the proportion of net liabilities which are supported by cash and unaffiliated invested assets. Some companies' cash flows are positive, large and stable enough to meet their liquidity demands. The quality, market value and diversification of assets, particularly the exposure to large single investments relative to surplus, should also be evaluated. Also included is a three-year trend of sources of capital gains, split by major investment category.



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Following are some of the liquidity ratios presented:

Quick Liquidity: The ratio of unaffiliated quick assets to adjusted liabilities less AVR. It indicates a company's ability to meet its maturing obligations without requiring the sale of long-term investments or borrowing money. The importance of this ratio varies by line of business. A company marketing short-term products should maintain a favorable operating cash flow and a higher quick liquidity ratio.

Current Liquidity: The ratio of unaffiliated invested assets to liabilities less AVR. It indicates the proportion of liabilities covered by unaffiliated invested assets excluding mortgages and real estate. A declining trend in this ratio may signal that growth in non-affiliated invested assets is not keeping pace with growth in liabilities.

Overall Liquidity: The ratio of net admitted assets (excluding separate accounts) to total liabilities less AVR. This ratio shows the cushion of assets available to meet the obligations of the company.

Real Estate to Capital and Surplus: The ratio of real estate owned to capital and surplus funds. Real Estate holdings include foreclosed properties, home office property and investment real estate. Components of the relatively illiquid real estate investments are analyzed in greater detail to evaluate the quality of the portfolio.

Common Stock to Total Capital: The ratio of investments in common stock to the sum of capital and surplus funds plus the AVR and conditional reserves. A distinction is made between affiliated and unaffiliated investments due to the liquidity components of each of these. In addition, the company's expertise in managing its common stock portfolio is reviewed.

Total Affiliated Investments Plus Home Office to Total Capital: Total investments in parent, subsidiaries and/or affiliates, including the home office, as a percentage of capital and surplus funds plus AVR. Excessive affiliated investments can adversely impact the liquidity of a company. The purpose and synergy of the affiliated investments are assessed.

Single Investment Limit: The lesser of 4% of assets or 10% of the sum of capital and surplus funds plus the AVR, constitutes the limit established by A.M. Best for each company in a single holding. Single investments which exceed this limit are considered to be a potentially large concentration which may impact an insurer's liquidity.

Investment Yields

(Refer to QAR Page 13)

Total Return: The total return generated by an insurer's investment portfolio as measured by net investment yield (see below) plus realized and unrealized capital gains after the net effects of all transfers and amortization of interest maintenance reserve.

Net Yield: The ratio of net investment income to mean cash and invested assets, plus accrued investment income, minus borrowed money. This ratio does not take into consideration realized and unrealized capital gains or income taxes. Normally, a firm that invests in speculative investments will report a higher net yield than a company that invests in relatively risk-free assets.

Composition of Bond Portfolio

(Refer to QAR Pages 13, 14 and 15)

In addition to the data available from the National Association of Insurance Commissioners (NAIC) blank, analysis should incorporate the degree of call protection and senior/ subordination covenants in a bond portfolio. To supplement this analysis, the distribution of the bond portfolio by industry segments (i.e. financial sector, energy sector, manufacturing sector, etc.) is reviewed.

Analysis of the bond portfolio considers the overall distribution of bonds by NAIC designation, the maturity schedule and the total dollar amount of below-investment-grade bonds, as well as a percentage of adjusted surplus and insurance assets, respectively. In addition to the single large investment analysis, large concentrations in the below investment grade classifications is also reviewed because this sector tends to improve or worsen not by specific issues but as a group.

Examination of private placements assesses the risk chart characteristics and liquidity of the portfolio through the use of a supplemental rating questionnaire (SRQ). In addition, prepayment risk on mortgage and asset-backed assets such as



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Collateralized Mortgage Obligations (CMO) is analyzed.

Bond Quality: Represents the distribution of the company's bond portfolio within the six NAIC bond quality classifications as a percent of total bonds. NAIC 1 and 2 are considered Investment Grade, while NAIC 3, 4, 5 and 6 are considered Non-Investment Grade based on the following table. The percentage subtotals for investment grade and non-investment grade bonds are also given. The different NAIC classifications of non-U.S. government bonds generally refer to the following grades:

NAIC 1: Highest Quality (Investment Grade)

Standard & Poor's: AAA, AA+, AA, AA-, A+, A, A-

Moody's: Aaa, Aa1, Aa2, Aa3, A1, A2, A3

Fitch Ratings: AAA, AA+, AA, AA-, A+, A, A-

NAIC 2: High Quality (Investment Grade)

Standard & Poor's: BBB+, BBB, BBB-

Moody's: Baa1, Baa2, Baa3

Fitch Ratings: BBB+, BBB, BBB-

NAIC 3: Medium Quality (Non-Investment Grade)

Standard & Poor's: BB+, BB, BB-

Moody's: Ba1, Ba2, Ba3

Fitch Ratings: BB+, BB, BB-

NAIC 4: Low Quality (Non-Investment Grade)

Standard & Poor's: B+, B, B-

Moody's: B1, B2, B3

Fitch Ratings: B+, B, B-

NAIC 5: Lower Quality (Non-Investment Grade)

Standard & Poor's: CCC+, CCC, CCC-, CC, C

Moody's: Caa1, Caa2, Caa3, Ca, C

Fitch Ratings: CCC+, CCC, CCC-, CC

NAIC 6: Bonds In or Near Default (Non-Investment Grade)

Standard & Poor's: C, D

Moody's: Caa1, Caa2, Caa3, Ca, C

Fitch Ratings: C, D

Bond Distribution by Maturity: Represents the distribution of the company's amortized bond portfolio by stated maturity over five maturity ranges. Generally, the average maturity of the bond portfolio depends on the liability profile of a company. This ratio can be overstated by a company's investments in mortgage backed instruments and issues with call provisions as the expected maturity of these holdings can be considerably less than the reported maturity due to prepayments and calls.



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One Year Liquidity Analysis

(Refer to QAR Page 15)

This section shows the distribution of the company's year-end bond portfolio as it pertains to non-loan backed, loan backed, multi-class residential, and multi-class commercial bond holdings in its fixed income portfolio. Additionally, a listing of the company's total derivative instrument exposure is shown on this page. Companies with larger loan backed, multi-class and derivative holdings need to possess considerable internal investment expertise or contract with outside professionals to manage these riskier and more volatile investments.

Mortgage and Real Estate Analysis

(Refer to QAR Page 16)

An important consideration in the analysis of mortgages and real estate is the market condition to which a company's portfolio is exposed. As a result, each portfolio should be analyzed on its own risk characteristics and not on a generic outlook of the market. Distribution by general category is shown, as well as a company's yield on its portfolio and surplus exposure to the portfolio.

Additional considerations of a company's mortgage portfolio such as property types, geographic concentration, loan to value ratios, debt service coverage, balloon risk, seasoning of the portfolio, restructured loans and problem loans are disclosed within our supplemental rating questionnaire.

Mortgage Quality: Represents a company's mortgage portfolio performance as a percent of total mortgages. Mortgages are classified as performing, restructured, 90 days delinquent, in the process of foreclosure and foreclosed. Ratios for problem mortgages, including and excluding restructured loans to invested assets and restructured loans capital and surplus plus AVR, also are given.

Higher Risk Assets

(Refer to QAR Page 17)

In addition to reviewing the investment portfolio by investment type we further review more volatile holdings on an aggregate basis. In this section, invested assets are segregated into three categories by risk profile: Medium risk assets include NAIC 3 bonds, common stocks and performing mortgage loans (excluding those federally insured and restructured). High risk assets are comprised of NAIC 4 and 5 bond holdings, restructured mortgage loans, mortgages three months in arrears, mortgages in the process of foreclosure, home office real estate and collateral loans. Non-performing assets include NAIC 6 bonds in or near default, foreclosed mortgage loans and preferred stock holdings not in good standing. These investment classifications are reviewed both as a percentage of capital and surplus plus AVR, and invested assets, respectively.

Preferred and Common Stock Analysis

(Refer to QAR Page 17)

This section considers preferred and common stock distribution by industry classification, including affiliated holdings, and yield. The volatility of the stock market, potential capital gains/losses, dividend provisions, affiliated relationships and concentration in specific issues are important considerations in the evaluation of the stock portfolio.

Analysis of Cash Flow

(Refer to QAR Page 18)

This section shows the sources and uses of cash within the insurance enterprise.

Subprime Mortgage Related Risk Exposure

(Refer to QAR Page 18)

This section shows the Book Value and Fair Value for mortgage related investments and the exposure to Subprime direct and



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Subprime indirect, as reported in Note 21.G. in the Notes to Financial Statements.

OTTI Recognized

(Refer to QAR Page 18)

This section shows the current year's other than temporary impairment recognized, and is shown for real estate, mortgage loans, bonds and stocks, other long-term, cash & short-term as reported in the verification between years.

How Is Leverage Analyzed with Best's QAR?

Distribution of Premium Income and Deposits

(Refer to QAR Page 19)

Lists the volume of direct business written, annuity and other fund deposits, the net effect of reinsurance, the annual percentage change in the amount of both direct and net business written and the relationships of in force amounts to assumed and ceded business, respectively.

The five-year distribution of premium income and deposits is useful in trend analysis. Shifts in business mix and risk profile become apparent during this analysis. Stagnant total premium volume can be deceptive because growth in one line may be offset by the discontinuance or run-off of other lines of business. In addition, premium volume should be evaluated to determine whether growth is derived from increased direct production or from a change in reinsurance activity.

Five Largest States By DPW

(Refer to QAR Page 19)

This section shows a company's new business concentration by state within its total direct, life insurance, annuity, accident & health, and deposit type funds business written last year. There are regulatory and economic risks associated with large concentrations of business originating from a limited number of states within any of the product segments.

Reinsurance Analysis

(Refer to QAR Page 20)

Reinsurance plays an essential role in the risk allocation process and provides insurers, particularly small insurers, with a degree of financial stability. As a result, each company's reinsurance program should be evaluated to determine if it is adequate, appropriate and sound. Reinsurance can be utilized to leverage a company's surplus and enable it to write more business than it could otherwise.

However, depending upon the degree of reinsurance utilized, a company's ability to meet its financial obligations can become dependent upon the performance of its reinsurers. Should this utilization increase to a considerable level, so should the scrutiny of a company's overall reinsurance program to determine whether it is masking problems in its core operations.

Adjusted Surplus Relief: Total commissions and expense allowances incurred on reinsurance ceded net of commissions and expense allowances on reinsurance assumed as a percentage of capital and surplus. In effect, surplus relief acts as a stopgap measure by sacrificing future profitability for present surplus and profitability enhancement.

Reinsurance Leverage: Total reinsurance ceded, including amounts recoverable from reinsurers, commissions and expense allowances due, experience rating and other refunds due and other applicable write-ins as a percentage of capital and surplus. As stated above, utilization of excessive reinsurance should be evaluated in great detail.



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Breakdown of Insurance Issued

(Refer to QAR Page 21)

This table shows the major types of life insurance issued; namely, whole life and endowment, term, group (including F.E.G.L.I. and S.G.L.I., if applicable), credit and industrial. This section is useful in tracking a company's life insurance activity. The development of insurance issued can indicate a change in the risk profile and a change in the niche market. A higher face amount issued can point to a move in the upscale markets.

Breakdown of Insurance In-Force

(Refer to QAR Page 21)

This table provides the same by-line of business breakdown as the Insurance Issued Table. The results reported in this section reflect the cumulative amount of life insurance coverage on a company's books. Analysis of this section, in conjunction with the Insurance Issued section, can suggest growth or decline in life insurance business. Additionally, a changing focus into newer lines also can be assessed.