

Frequently Asked Questions:

Best's Capital Adequacy Ratio Adjustment System – P/C, US

What is BCAR?

Best's Capital Adequacy Ratio (BCAR) is an integrated review of an insurance company's underwriting, financial and asset leverage. BCAR calculates the net required capital to support the financial risks of the company associated with the exposure of assets and underwriting to adverse economic and market conditions, and compares it to economic capital.

The basic formula for BCAR is
$$\frac{\text{Adjusted Policyholders' Surplus (APHS)}}{\text{Net Required Capital (NRC)}}$$

Go to <http://www.ambest.com/ratings/methodology/bcar.pdf> for a full explanation of the BCAR calculation.

A company's BCAR is one of the components considered in determining its Best's Rating. In addition to calculating a company's risk exposure based on current data, A.M. Best Company analysts utilize the model to test risk assumptions and run stress-test scenarios that project the impact of potential financial performance outcomes of the company.

What is the *BCAR Adjustment System – P/C, US*?

The *BCAR Adjustment System* is a desktop application that provides online access to the same base data used by A.M. Best analysts to calculate the BCAR score for approximately 3,000 single and group U.S. property/casualty companies. The *BCAR Adjustment System* allows users to make assumptions or adjustments to the Adjusted Policyholders' Surplus (APHS) and the Net Required Capital (NRC) for their company or others, just as an A.M. Best analyst would. Output data sheets with the base data and adjustments are in a printable format.

Being able to calculate BCAR scores adjusted for relevant variables enables insurance professionals or consultants to assess the impact of various scenarios on a company's financial strength. "What if" scenarios/assumptions can be run on your own company or your peer groups, allowing you to compare and benchmark against your competitors.

Note: While the *BCAR Adjustment System* provides users with access to the same base starting point as that used by A.M. Best rating analysts, and allows the user to make adjustments to the same variables, the resulting BCAR may not necessarily match the BCAR score published by A.M. Best. This is due to additional adjustments that may be made by the A.M. Best rating analyst based on confidential information collected during the rating review process and the Supplemental Rating Questionnaire (SRQ).

My company is an A.M. Best-rated insurer. Is my company required to purchase the *BCAR Adjustment System* as part of the interactive rating process?

No. Purchase of the *BCAR Adjustment System* is completely separate from a rated insurer's rating



fee and is not required as part of the rating process. Rated companies can request modifications to BCAR scenarios run by their designated rating analyst on their company as part of the interactive rating process. Additionally, output from this model does not replace the need for an interactive discussion with the designated analyst in determining the rating impact of any merger or acquisition involving the company.

Who would be a typical user of the *BCAR Adjustment System*?

A variety of professionals can benefit from using the *BCAR Adjustment System*. They include U.S. property/casualty insurers, brokers, consultants, actuarial firms, asset management companies and other insurance intermediaries. In order to be able to use the *BCAR Adjustment System* effectively, users should have a fairly sophisticated level of familiarity with insurance company operations and capital models.

How often is the information updated?

The *BCAR Adjustment System* will be updated annually with an initial data release in March. The data will be updated automatically and available to customers without downloading any updates. The only updates required would be for application/functionality changes.

Some companies have created their own BCAR models that they use in assessing their capital needs. What is the advantage of the *BCAR Adjustment System*?

First, this product provides access to the actual model used by A.M. Best rating analysts; there's no guesswork involved. Second, users have immediate access to the latest methodologies and changes to how the BCAR is calculated. Company-created versions do not have this advantage. Also, you will have access to and the ability to run BCARs on any company in the industry using your own assumptions.

How much does the *BCAR Adjustment System* cost?

The cost of the *BCAR Adjustment System* varies based on usage and licensing requirements at each location. A signed site license agreement is required. Call (908) 439-2200, ext. 5311 or your regional A.M. Best Sales representative for pricing information.

What kind of customer support is provided for the *BCAR Adjustment System*?

Technical questions will be handled by our Technical Products Support group. Questions about data will be filtered through TPS to our team of Business Information Analysts. Interactively rated P/C insurance companies can also contact their assigned rating analyst.

Can I view a demonstration of the *BCAR Adjustment System*?

Visit www.ambest.com/sales/bcarvideo.html to see an informational video on the *BCAR Adjustment System*. To request a demonstration, call your regional A.M. Best representative or (908) 439-2200, ext. 5311.

