BIBA LITMUS TEST REPORT
An introduction

Peter Hughes
Litmus Analysis
• Underlying principles
• How it gets to your desktop
• How it works
  • Fundamentals and key considerations
  • The benchmark cohort
  • The ratios
  • Data adjustments
  • Size & growth
  • The benchmark categories
  • Covered insurers
• Enterprise – an example of the BLTR output
• Q&A
Keep it Straightforward

Make sure it’s Useful

Make it Educational

robust, normalised data: highly experienced analysts: powerful underlying delivery platform: easy to update: covering the carriers brokers need according to demand: background educational material in plain English: standardised ratio analysis compared against market benchmarks: supported by the BIBA & Litmus teams: exclusive to BIBA membership:

Note: The BLTR was created to assist brokers considering unrated carriers; rated companies are available under the S&P facility supplied by BIBA.
How it gets to your desktop

A.M. Best

Report & account data

AMB Data

Select Benchmarks

Evaluate

Select Ratios

LITMUS ANALYSIS

Generate Benchmarks

Review

Generate Ratios

LITMUSQ
How it gets to your desktop

LITMUS ANALYSIS

LITMUSQ → API → BLTR Test Site → Review → BIBA website

BIBA
How it works – the educational component

BLTR GUIDES

- Insurers covered by the BLTR
- About BLTR
- Key Concepts
- Data Adjustments
- Size and Growth
- Ratios
- Categories
- About Litmus
- A.M. Best
Key ratios selected by Litmus to support broker reviews of financial health. Additional ratios could have been selected, but Litmus has limited the number to make the BLTR easier for brokers to use.

Each ratio outcome is benchmarked against a sample of 50 UK non-life carriers. Additional important metrics to be considered (size and growth) are also displayed.

The BLTR does not apply an interpretation to the benchmarked ratio outcomes; this is specifically the responsibility of the broker.

The BLTR supports your review of an insurer’s audited accounts, other materials and discussions with the insurer. The BLTR is not a substitute for this level of review.

The BLTR is not offering any form of opinion on an insurer; the information is merely factual. Members will need to consider their own conclusions as a result of its insurer review.

BLTR access is limited to BIBA members
External distribution is prohibited by BIBA.
How it works – the benchmark cohort

The purpose of the categories

- To give context to each ratio shown for each insurer, we compare the ratio to a set of UK non-life benchmarks for that ratio.
- The insurer’s ratios are assigned 1 of 5 categories.
- Category 1 equates to the strongest outcome, category 5 to the weakest.
- List of the cohort companies used to calculate the benchmarks is under the ‘categories’ tab – the list will change from year to year as the top 50 changes.

*We average the benchmarks from the latest 3 years of data to mitigate volatility.*
Benchmark cohort selection

The largest 50 UK domiciled non-life operating insurers (ranked by net written premium) are used to calculate the benchmarks subject to them meeting the following conditions.

The insurer:

- has a full data record (for the data used within the BLTR) available within Best’s Statement File Global’ database.
- is not a Lloyd’s Syndicate or Captive insurer*
- is not predominantly a reinsurer, health insurer or credit insurer *
- is not an agency *
- does not show any life business within its Best’s data record *
- does not have a fellow group member also included in the cohort (the largest available operating insurer from each group is used)

Only benchmarks applicable to ‘regular’ non-life insurers are available. Hence, reinsurance, credit, health and financial guarantee companies are excluded (as well as those with life income).

*Only relates to the specific named insurer, not any wider group to which it belongs
50 largest applicable non-life insurers

Calculate ratios

Rank by ratio

Wider percentile ranges in the middle allow for clustering around the mean (50%) in the benchmark cohort. The average difference in any ratio between adjacently ranked members of category 3 would be expected to be lower than in categories 1 or 5.
An insurer in this category would have a ratio better than or equal to the top 10%

An insurer in this category would have a ratio better than the 70% benchmark but worse than or equal to the 90% benchmark

On the left are examples of the ratio categories as they are shown in the BLTR (NB higher ratios are better in some instances and worse in others).

Visually each category is shown as the same size; in reality the %age of the benchmark cohort varies, as shown above.
Selection of ratios

- **Capital ratios** – Underwriting leverage, Reserving leverage, Investment risk, Credit risk
- **Performance ratios** – Underwriting profitability, Operational profitability
- **Other ratios** - Retention ratio, Liquidity

**How it works – the ratios**

- Higher is better
- Higher is worse
BIBA LITMUS TEST REPORT

Data Adjustments

Reported Shareholders’ Funds

Minus –
Goodwill
Intra group investments

Plus -
Equalisation reserve
Market value adjustment
Impact of ‘limiter’

Adjusted Shareholders’ Funds

How it works – data adjustments
**Size and Growth**

**Size**
Credit analysis is generally, although not always, ‘size-ist’, as lack of size can –

- Limit degree of diversification
- Limit ‘market position’ – pricing power
- Limit management bench-strength
- Limit financial flexibility

**The BLTR size classifications**
Based on Gross Written Premium (GWP)

- **I** • Up to £25m
- **II** • >=£25m < £100m
- **III** • >=£100m < £400m
- **IV** • >= £400m < £1,000m
- **V** • >=£1,000m
Important considerations

- Categorisations are relative (to the benchmark cohort) not absolute
  The benchmarks will change somewhat through time due to market and benchmark cohort make-up changes.
  However to limit any undue volatility the benchmarks reflect the average of the last 3 available years.

- Which ratios are considered most significant is for the user to judge.
  However, analytically it would be unusual for substantially more weight to be given to non-capital ratios than to capital ratios.

- The data reflects the latest available from A.M. Best
  There will inevitably be same time lag between account publication and A.M. Best capturing, standardising and checking the data.
  Numbers will have changed since the accounts; markets shift, events happen.
These companies are those covered at launch:

**Company**

Acromas Insurance Company Limited
Advantage Insurance Company Limited
Al Ain Ahlia Insurance Company-PSC
Al Dhafra Insurance Company P.S.C.
Astrenska Insurance Limited
Autohome Insurance Limited
Calpe Insurance Company Ltd
Carraig Insurance Company Limited
Casualty & General Insurance Co (EU) Ltd
China Pacific Property Insurance Co Ltd
CIS General Insurance Limited
Collingwood Insurance Company Limited
Equine and Livestock Insurance Co Ltd
Enterprise

FBD Insurance plc
Legal & General Insurance Limited
Markerstudy Insurance Company Limited
PAMIA Limited
PICC Property & Casualty Company Ltd
Protector Forsikring ASA
RAC Insurance Limited
Sabre Insurance Company Limited
Tradewise Insurance Company Limited
Tradex Insurance Company Limited
Union Reiseversicherung AG
United Kingdom Freight Demurrage & Def
White Horse Insurance Ireland DAC
Feel free to request additional companies (within reason!). These will be added according to demand, whether they are suitable for BLTR coverage, and availability of data, as soon as is practicable.

If you require deeper analysis of key insurance partners, these can be referred to Litmus.
Enterprise

An example of the BLTR output
The 5 categories highlight how any given ratio outcome compares to the UK non-life insurer benchmarks used within the BLTR. Hence the adjectives chosen for the description of each category specifically refer to the outcome ‘relative’ to those benchmarks. They do not necessarily imply an ‘absolute’ degree of strength or weakness in any given ratio.

The categories guide above describes this in detail and much of the rest of the educational and informational content within the BLTR guides describes critical context for a BLTR user to consider when interpreting the category outcomes.
Capital Ratios

Ratios based on Reported Shareholders’ Funds

<table>
<thead>
<tr>
<th>Ratio</th>
<th>Category</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Underwriting Leverage</td>
<td>5</td>
<td>477.73%</td>
</tr>
<tr>
<td>Reserve Leverage</td>
<td>5</td>
<td>480.07%</td>
</tr>
<tr>
<td>Investment Leverage</td>
<td>4</td>
<td>62.65%</td>
</tr>
<tr>
<td>Credit Risk</td>
<td>5</td>
<td>699.81%</td>
</tr>
</tbody>
</table>

Ratios based on Adjusted Shareholders’ Funds

<table>
<thead>
<tr>
<th>Ratio</th>
<th>Category</th>
<th>Value</th>
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<tr>
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<tr>
<td>Investment Leverage</td>
<td>3</td>
<td>62.65%</td>
</tr>
<tr>
<td>Credit Risk</td>
<td>5</td>
<td>699.81%</td>
</tr>
</tbody>
</table>

Other Key Ratios

<table>
<thead>
<tr>
<th>Ratio</th>
<th>Category</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Underwriting Profitability</td>
<td>4</td>
<td>100.00%</td>
</tr>
<tr>
<td>Operational Profitability</td>
<td>4</td>
<td>95.40%</td>
</tr>
<tr>
<td>Reinsurance Usage</td>
<td>4</td>
<td>51.79%</td>
</tr>
<tr>
<td>Liquidity</td>
<td>5</td>
<td>76.00%</td>
</tr>
</tbody>
</table>

Size and Growth Rates

<table>
<thead>
<tr>
<th>Size classification</th>
<th>Annual growth</th>
<th>Four-year growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>III</td>
<td>-4.0%</td>
<td>192.19%</td>
</tr>
</tbody>
</table>

Reported Shareholders’ Funds (’000s)

<table>
<thead>
<tr>
<th>Description</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Minus goodwill (’000s)</td>
<td>£0.00</td>
</tr>
<tr>
<td>Minus intra group investments (’000s)</td>
<td>£0.00</td>
</tr>
<tr>
<td>Plus equalisation reserve (’000s)</td>
<td>£0.00</td>
</tr>
<tr>
<td>Plus market value adjustment (’000s)</td>
<td>£0.00</td>
</tr>
<tr>
<td>Plus impact of RSF adjustment breakeven (’000s)</td>
<td>£0.00</td>
</tr>
</tbody>
</table>

Resulting Adjusted Shareholders’ Funds (’000s)

<table>
<thead>
<tr>
<th>Description</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Resulting Adjusted Shareholders’ Funds (’000s)</td>
<td>£16,413.28</td>
</tr>
</tbody>
</table>
**Categories**

<table>
<thead>
<tr>
<th>Category 1</th>
<th>Category 2</th>
<th>Category 3</th>
<th>Category 4</th>
<th>Category 5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongest</td>
<td>Stronger than median range</td>
<td>Median range</td>
<td>Weaker than median range</td>
<td>Weakest</td>
</tr>
</tbody>
</table>

The categories highlight how your ratio outcome compares to the 100 industry peer group benchmarks used within the ELS. The definitions chosen for the description of each category specifically relate to the rationale behind the ratio benchmarks. They do not necessarily imply an 'absolute' degree of strength or weakness in any given ratio.

The categories guide above describes this in detail and much of the rest of the educational and informational content within the ELS guide describes critical content for a ELS user to consider when interpreting the ratio outcomes.

**Capital Ratios**

**Ratios based on Reported Shareholders’ Funds**

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**Ratios based on Adjusted Shareholders’ Funds**

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<tr>
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</table>

**Other Key Ratios**

**Underwriting Profitability**

- Category 4: 100.97%

**Operational Profitability**

- Category 4: 99.48%

**Reinsurance Usage**

- Category 4: 53.73%

**Liquidity**

- Category 5: 56.84%

**Size and Growth Rates**

**Size classification**

- III

**Annual growth**

- 4.49%

**Four-year growth**

- 180.99%

**Reported Shareholders’ Funds (‘000s)**

- £16,413.28

**Minus goodwill (‘000s)**

- £0.00

**Minus intra-group investments (‘000s)**

- £0.00

**Plus equalisation reserve (‘000s)**

- £0.00

**Plus market value adjustment (‘000s)**

- £0.00

**Plus impact of ESR adjustment breyer (‘000s)**

- £0.00

**Resulting Adjusted Shareholders’ Funds (‘000s)**

- £16,413.28
Litmus will have a stand at the 2017 conference where we will be demonstrating and discussing the BLTR. Please visit us there, and if you’d like to make an appointment to meet, email us –

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Peter Hughes
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Questions?

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