BIBA LITMUS TEST REPORT
An introduction

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Litmus Analysis

A.M. Best

LITMUS ANALYSIS

- Underlying principles
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- How it works
    - Fundamentals and key considerations
    - The benchmark cohort
    - The ratios
    - Data adjustments
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- Enterprise – an example of the BLTR output
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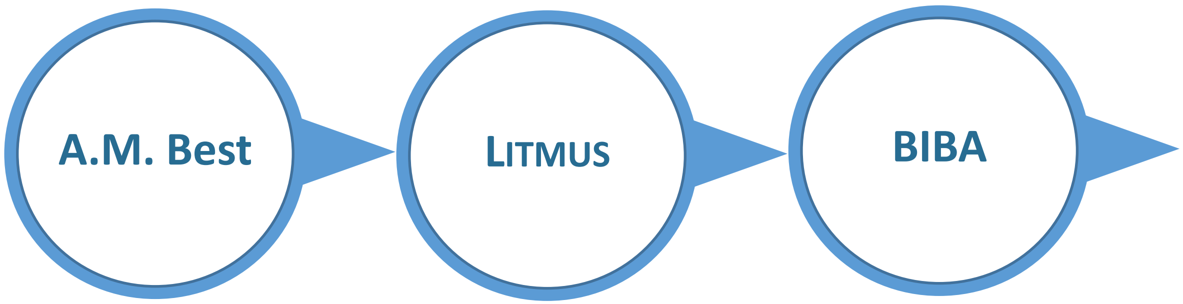
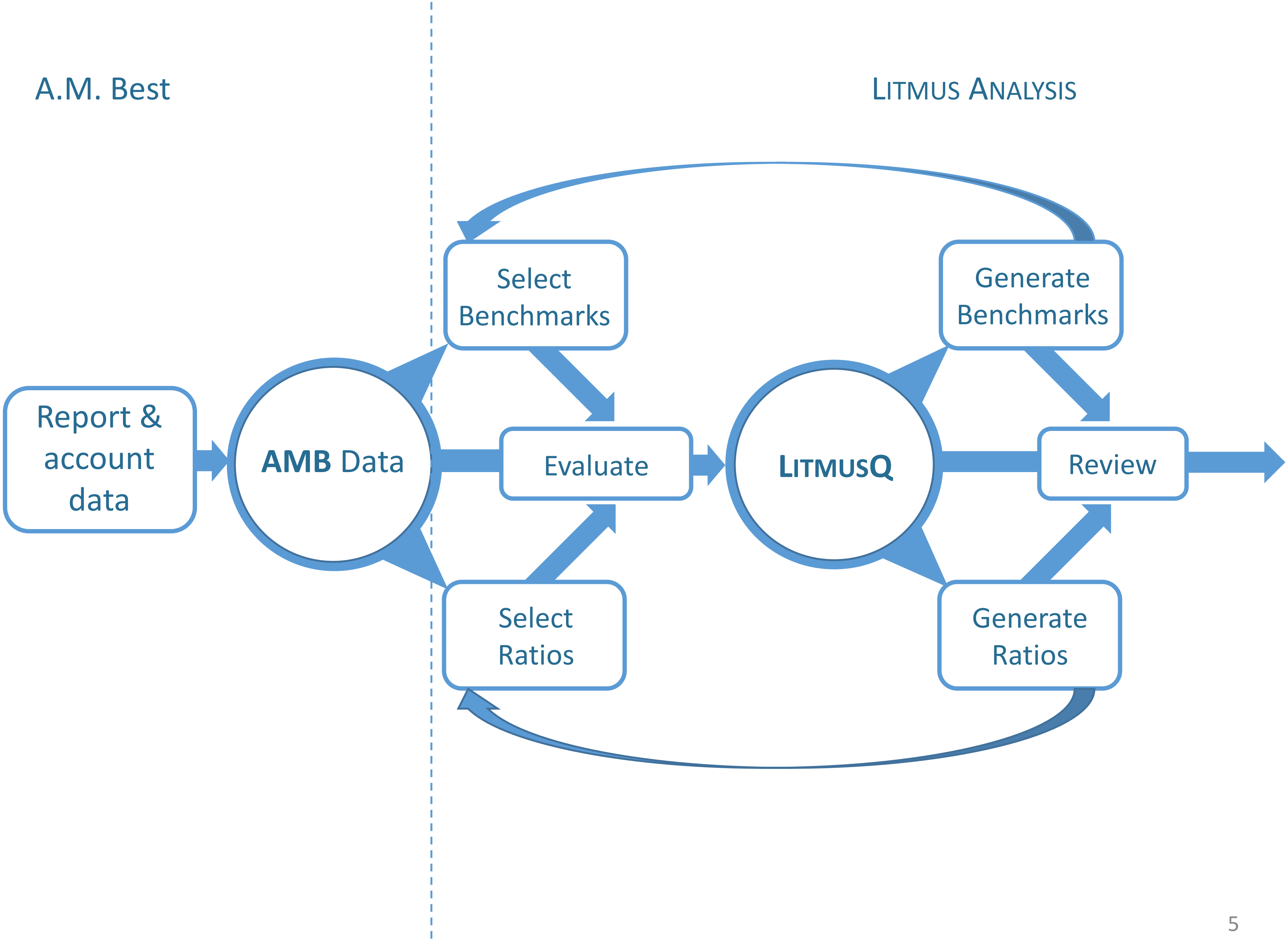
UNDERLYING PRINCIPLES	
U N D E R L Y I N G P R I N C I P L E S	Keep it **Straightforward** Make sure it's **Useful** Make it **Educational**
	robust, normalised data : highly experienced analysts : powerful underlying delivery platform : easy to update : covering the carriers brokers need according to 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
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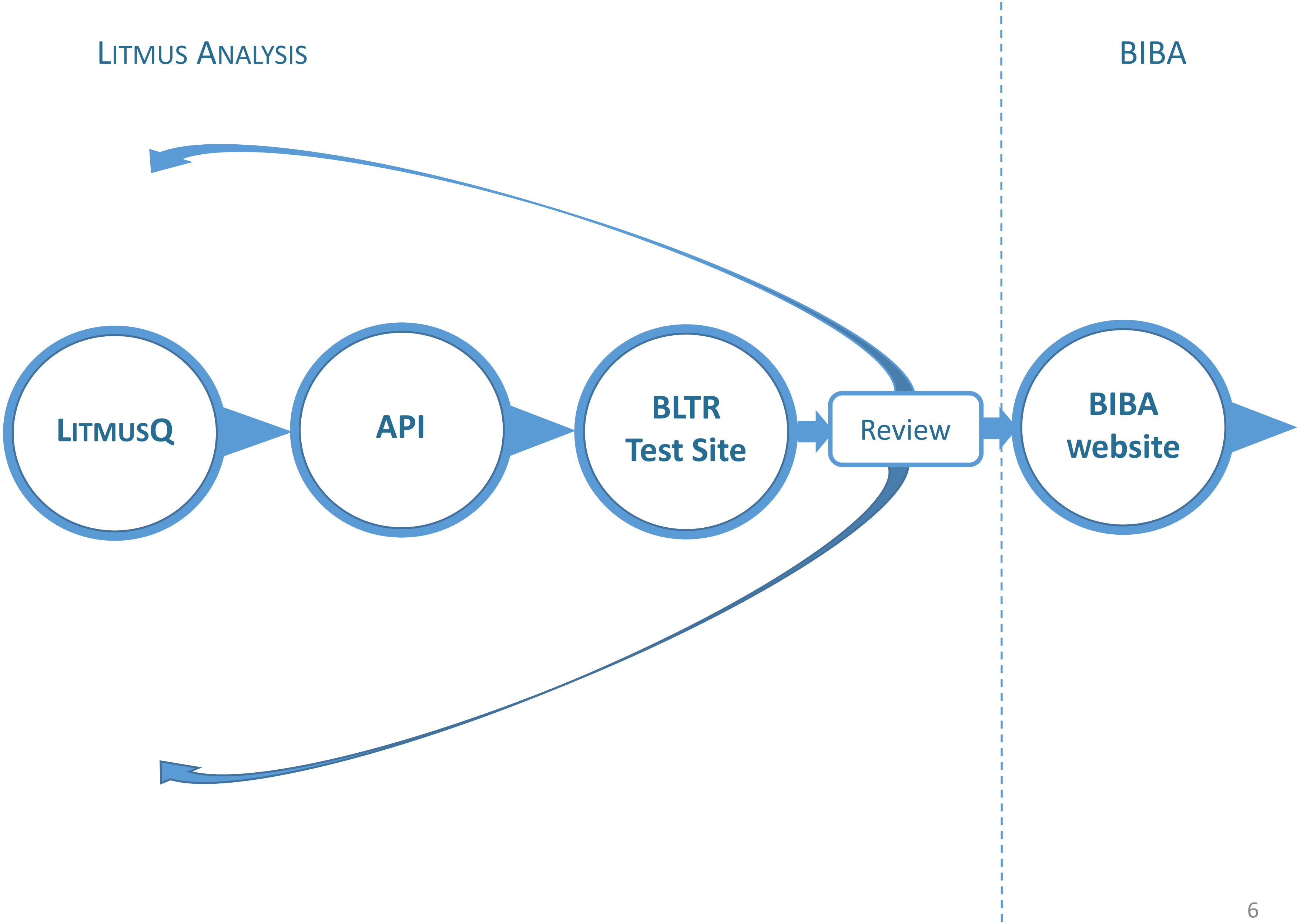
Report & account data
AMB Data
Select Benchmarks
Evaluate
Select Ratios
LITMUSQ
Generate Benchmarks
Review
Generate Ratios

How it gets to your desktop



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

How it works – fundamentals & key considerations

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.

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.

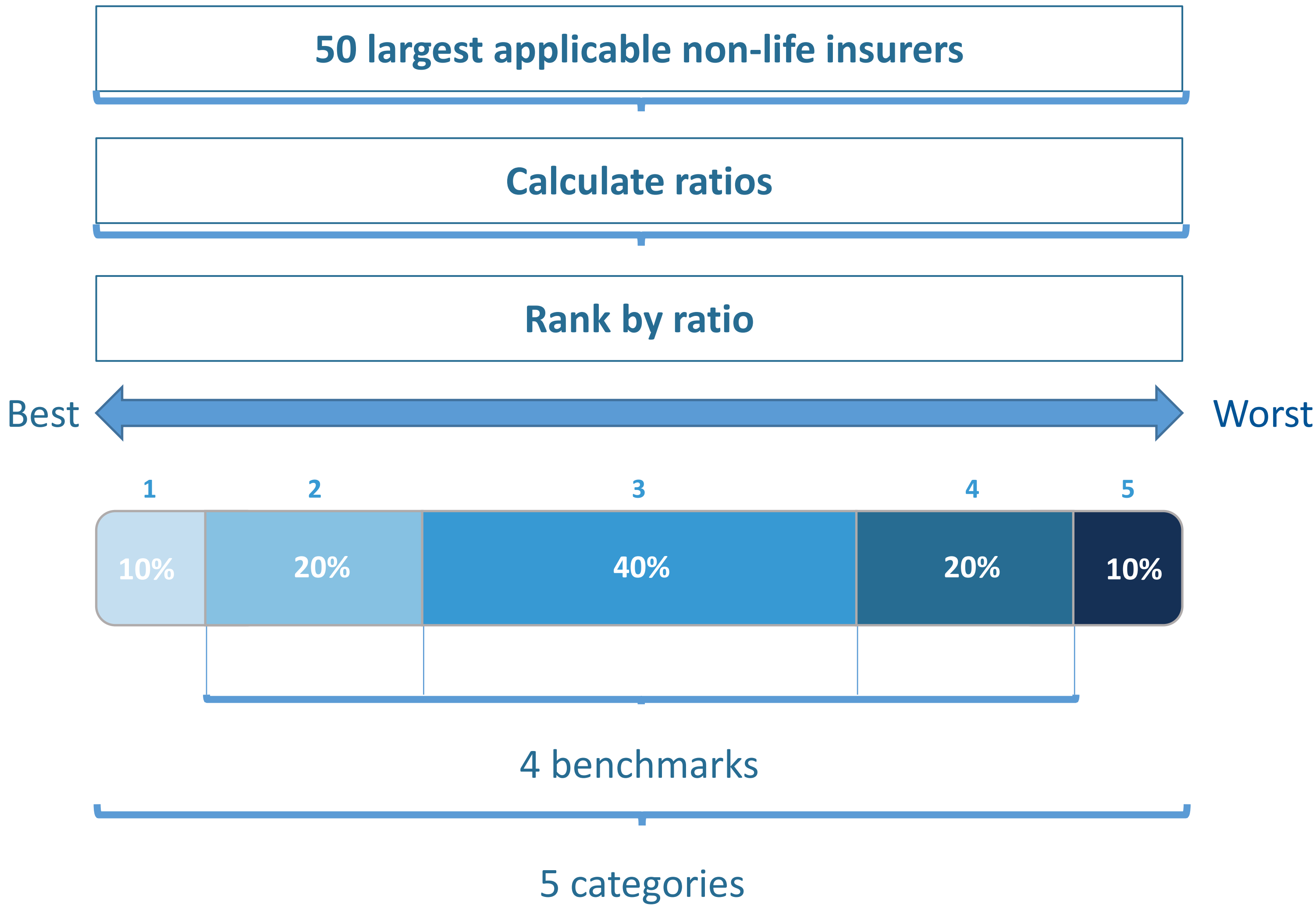
The insurer:

- *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).

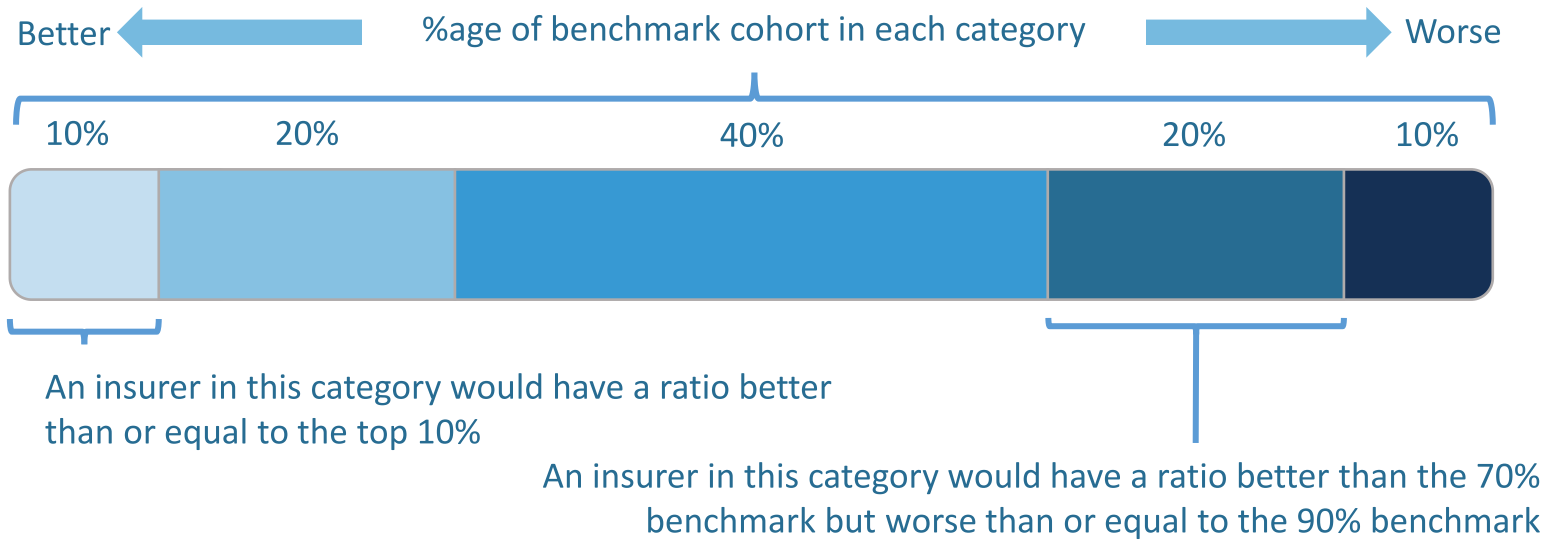
* *Only relates to the specific named insurer, not any wider group to which it belongs*

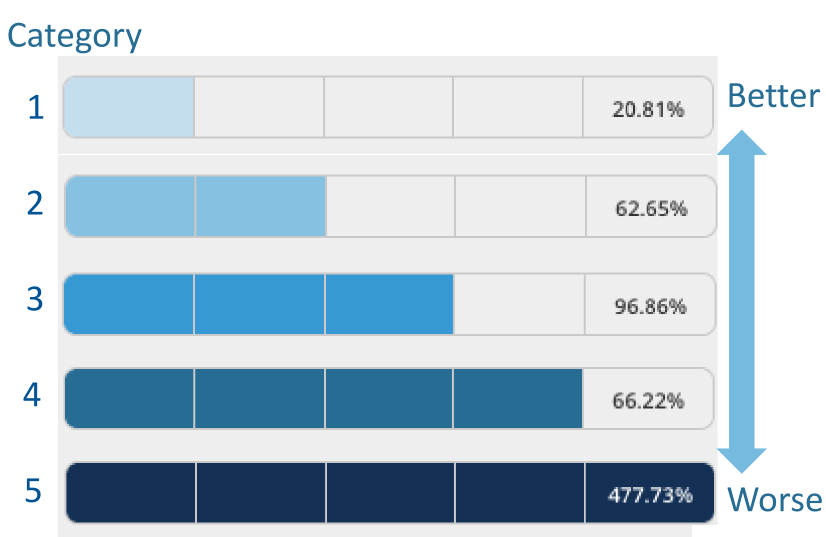
How it works – the benchmark cohort



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.

How it works – benchmark categories





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.

Ratios

Selection of ratios

Higher is worse

Capital ratios –
Underwriting leverage
Reserving leverage
Investment risk
Credit risk

Performance ratios –
Underwriting profitability
Operational profitability

Higher is better

Other ratios -
Retention ratio
Liquidity

How it works – data adjustments

Data Adjustments

Reported Shareholders' Funds

Minus –

Goodwill

Intra group investments

Plus -

Equalisation reserve

Market value adjustment

Impact of 'limiter'

Adjusted Shareholders' Funds

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

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Categories

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.

How it works – covered insurers

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

How it works – covered insurers

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.

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Enterprise

An example of the BLTR output

ENTERPRISE INSURANCE CO PLC

Categories

Collapse key

Category 1	Category 2	Category 3	Category 4	Category 5
Strongest	Stronger than mid-range	Mid-range	Weaker than mid-range	Weakest

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 relate 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 crticial context for a BLTR user to consider when interpreting the category outcomes.

Capital Ratios

Ratios based on Reported Shareholders' Funds

		Category
Underwriting Leverage	477.73%	5
Reserve Leverage	480.07%	5
Investment Leverage	62.65%	4
Credit Risk	699.81%	5

Ratios based on Adjusted Shareholders' Funds

		Category
Underwriting Leverage	477.73%	5
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Other Key Ratios

		Category
Underwriting Profitability	100.97%	4
Operational Profitability	99.48%	4
Reinsurance Usage	53.73%	4
Liquidity	56.84%	5

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 RSF adjustment limiter ('000s)	£0.00
Resulting Adjusted Shareholders' Funds ('000s)	**£16,413.28**

ENTERPRISE INSURANCE CO PLC

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