

## **Article 1 – Do You Understand Financial Ratings?**

Understanding insurer financial ratings and the actual methodology used in arriving at ratings is very involved and complex. Various companies have different philosophies and approaches to arriving at their specific ratings, however, some commonalities do exist.

There are general quantitative and qualitative factors that are considered in assigning insurer ratings.

### **Some of the quantitative factors are:**

- **Profitability**
  - Combined Ratio
  - Return on Assets
  - Loss Ratio
  
- **Investments**
  - Quality
  - Diversification
- Leverage
- Liquidity
- Risk-based Capitalization

### **Some of the qualitative factors are:**

- Parent Affiliation
- Competitive Position
- Product
- Geographical Diversification
- Adequacy of Reserves
- Management Philosophy
- Stability of Performance
- Market Conditions

Recognized rating organizations include A.M. Best, Weiss, Demotech, Moody's and Standard & Poor's.

It is difficult to evaluate the information provided by these organizations and if you do not understand it, you should consult with your insurance agent or the applicable rating organization, regarding their specific rating methodology.