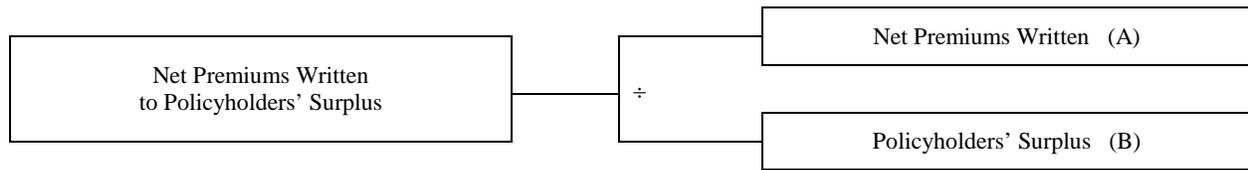


P/C OVERALL RATIO 2 – NET PREMIUMS WRITTEN TO POLICYHOLDERS’ SURPLUS



A. Net Premiums Written
 B. Policyholders’ Surplus

Page 8, Line 35, Column 6
 Page 3, Line 37, Column 1

Result = 100 * (A / B)

- If B is zero or negative, result is 999.
- If B is positive and A is negative, result is zero.

_____ %

This ratio measures the adequacy of the policyholders’ surplus cushion, net of the effects of premiums ceded to reinsurers. The higher the ratio, the more risk the insurer bears in relation to policyholders’ surplus.

The usual range for the ratio includes results up to 300 percent.

Problems could result from high net premiums written in relation to policyholders’ surplus. The following should be taken into consideration:

1. If the insurer is within a holding company system, consider reviewing this ratio on a consolidated basis. This consolidated approach provides a sense of the degree of group leverage.
2. Determine whether the insurer’s business is profitable and whether profits are stable, increasing, or decreasing. Ratio 5, Two-Year Overall Operating Ratio, provides a measure of profitability for the preceding two years. In general, insurers with stable profits are better able to sustain a higher ratio of net writings to policyholders’ surplus without undue risk than insurers with losses or unstable profits.
3. The distribution of premium between property and liability lines of business should be reviewed when analyzing this ratio. Insurers with a larger portion of premium from long-tail lines, such as workers’ compensation, should generally maintain a lower Net Premiums Written to Policyholders’ Surplus ratio. It is more difficult to accurately estimate potential losses for long-tailed business lines, resulting in greater variability of losses.
4. Determine the level of adequacy of the insurer’s reinsurance protection against large losses. Review the reinsurance contracts that are in place to assess the level of retention.
5. Determine the quality of the reinsurers. For material cessions, review the reinsurers’ financial statements to determine their financial stability. For those situations where collateral must be posted, ensure that the proper level and type of collateral is in place.

Branded Risk(s): PR/UW, ST