Article Title: Criteria | Insurance | Property/Casualty: Assessing Property/Casualty Insurers' Loss Reserves Data: (EDITOR'S NOTE: —On Feb. 26, 2021, we republished this criteria article to make nonmaterial changes. See the "Revisions And Updates" section for details.) 1. S&P; Global Ratings is revising its global criteria for assessing property/casualty insurers' loss reserves. 2. These assessments may result in adjustments to an insurer's total adjusted capital (TAC, S&P; Global Ratings' measure of the capital an insurer has available to meet its capital requirements) under our capital adequacy assessment (see paragraph 50 of "Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model," published on June 7, 2010) and may also affect our assessment of the insurer's operating performance. SCOPE OF THE CRITERIA 3. These criteria apply to all insurers globally that write property/casualty risks. SUMMARY OF THE CRITERIA 4. Our analysis of property/casualty loss reserves may include in-depth actuarial analysis, reviewing comprehensive reports by independent consulting actuaries, or reviewing reports of insurers' management. This article describes the impact of these assessments on our capital adequacy and operating performance analysis. 5. This paragraph has been deleted. 6. This paragraph has been deleted. METHODOLOGY 7. S&P; Global Ratings typically undertakes an in-depth actuarial analysis of a property/casualty insurer when our analysis identifies the possibility that loss reserves may be materially understated or overstated. Reasons for undertaking such an analysis include that an insurer's loss reserves, as a percentage of premium, differ materially from peers', the insurer has regularly reported material surpluses or deficits on prior-year loss reserves, or management estimates a significant surplus (or deficit). Furthermore, we may undertake an analysis to assess the impact of new legislation or emerging trends. The resulting assessments may influence our capital adequacy and operating performance analysis. Any adjustment to TAC factors in the relevant tax effects. 8. Our actuarial analysis is based on professional judgment and we use generally accepted actuarial techniques including chain ladder, expected loss ratio, Bornhuetter-Ferguson, and Cape Cod to determine our analytical view of loss reserves. We may use information that is public, or supplied by the insurer, or both. We do not audit the information. 9. Our view of the level of loss reserves generally includes loss adjustment expenses, but excludes explicit risk margins and loss reserve discount. Certain lines of business have such predictable payment patterns that we include loss reserve discount--for example, where claimants receive periodic payments, sometimes referred to as "structured settlements." 10. We may analyze some or all of an insurer's lines of business, based on our perception of the level of risk. For these lines, we compare our assessments against the loss reserves reported in the insurer's most recent financial statements. If we identify a deficit, we deduct it from total adjusted capital (TAC); if we identify a surplus, we typically add a conservative 50% of it to TAC. 11. When an in-depth actuarial analysis is not available for the past financial year-end, we may retain any deficits identified in earlier analyses, except where the insurer has addressed them by, for example, loss reserve strengthening. Typically, adjustments for surpluses are only retained where subsequent analysis indicates that the insurer has maintained loss reserve adequacy. Sources for subsequent analysis include reports by independent consulting actuaries and trends in surpluses reported in subsequent financial statements on prior-year loss reserves, trends in the insurer's estimates of surplus (including confidence intervals) and trends in the ratio of loss reserves to premium. 12. Deficits identified by reviewing comprehensive reports by independent consulting actuaries (instead of our own in-depth analysis) result in similar adjustments to TAC. However, any surpluses identified in this way lead to smaller adjustments; typically, TAC would be increased by no more than a quarter of the surplus identified. We adjust TAC upward only if we consider the actuaries to have sufficient experience in relevant markets and to have drawn reasonable conclusions based on their report. 13. Deficits identified by management are deducted in full from TAC; surpluses identified by management or other external sources do not increase TAC in the absence of in-depth analyses or independent consulting actuaries' reports. 14. Our assessment of operating performance (see paragraphs 12-16 of "Insurers Rating Methodology," published July 1, 2019) factors in surpluses or deficits in loss reserves that have persisted over a significant number of years, whether we undertook the analysis ourselves or reviewed actuaries' reports. Where this is the case, the reported operating performance may not accurately represent an insurer's economic profitability. Under our methodology, relevant adjustments may be made to certain metrics, such as the insurer's return on revenue and combined (loss and expense) ratio, and may influence our future expectations for these metrics. REVISIONS AND UPDATES This article was originally published on Nov. 26, 2013. These criteria became effective as of the publishing date. This article supersedes "Assessing Loss Reserve Adequacy For U.S.-Based Insurers/Reinsurers," published on Jan. 30, 2008. It also amends and partly supersedes "Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model," published on June 7, 2010. Changes introduced after original publication: Following our periodic review completed on Feb. 18, 2015, we updated the contact information. Following our periodic review completed on Feb. 17, 2016, we deleted paragraphs 5 and 6, which were related to the initial publication of our criteria and no longer relevant. Following our periodic review completed on Feb. 6, 2018, we deleted Appendix B, which was related to the initial publication of our criteria and no longer relevant. On Feb. 26, 2020, we republished this criteria article to make nonmaterial changes. We updated references to "Insurers Rating Methodology," published on July 1, 2019, in the "Related Criteria" section and in paragraph 14. On Feb. 26, 2021, we republished this criteria article to make nonmaterial changes to update the contact information. RELATED CRITERIA AND RESEARCH Related Criteria Insurers Rating Methodology, July 1, 2019 Principles Of Credit Ratings, Feb. 16, 2011 Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010 These criteria represent the specific application of fundamental principles that define credit risk and ratings opinions. Their use is determined by issuer- or issue-specific attributes as well as Standard & Poor's Ratings Services' assessment of the credit and, if applicable, structural risks for a given issuer or issue rating. Methodology and assumptions may change from time to time as a result of market and economic conditions, issuer- or issue-specific factors, or new empirical evidence that would affect our credit judgment.