

Understanding Best's Financial Strength Ratings

A Best's FSR can be assigned to an insurance company on an interactive or non-interactive basis. In both cases, the rating scale and descriptors are:

Secure	Vulnerable
A++, A+ (Superior)	B, B- (Fair)
A, A- (Excellent)	C++, C+ (Marginal)
B++, B+ (Good)	C, C- (Weak)
	D (Poor)
	E (Under Regulatory Supervision)
	F (In Liquidation)
	S (Suspended)

Rating Modifiers may be assigned to Financial Strength Ratings.

Modifier	Descriptor	Definition
u	Under Review	Indicates the rating may change in the near term, typically within six months. Generally is event driven, with positive, negative or developing implications.
pd	Public Data	Indicates rating assigned to insurer that chose not to participate in A.M. Best's interactive rating process (discontinued in 2010).
s	Syndicate	Indicates rating assigned to a Lloyd's syndicate.

Ratings from A to C also may be enhanced with a "++" (double plus), "+" (plus) or "-" (minus) to indicate whether credit quality is near the top or bottom of a category.

An **Outlook** is assigned to an interactive FSR to indicate its potential direction over an intermediate term, generally defined as 12 to 36 months. An Outlook can be:

Outlook	Definition
Positive	Indicates possible rating upgrade due to favourable financial/market trends relative to the current rating level.
Negative	Indicates possible rating downgrade due to unfavourable financial/market trends relative to the current rating level.
Stable	Indicates low likelihood of a rating change due to stable financial/market trends.

To enhance the usefulness of ratings, A.M. Best assigns each rated (A++ through D) insurance company a **Financial Size Category** (FSC). The FSC is based on adjusted policyholders' surplus (PHS) and is designed to provide a convenient indicator of the size of a company in terms of its statutory surplus and related accounts.

Many insurance buyers only want to consider buying insurance coverage from companies that they believe have sufficient financial capacity to provide the necessary policy limits to insure their risks. Although companies utilize reinsurance to reduce their net retention on the policy limits they underwrite, many buyers still feel more comfortable buying from companies perceived to have greater financial capacity.

Financial Size Category

Class Adj. PHS (\$ Millions)	Class Adj. PHS (\$ Millions)
I Less than 1	IX 250 to 500
II 1 to 2	X 500 to 750
III 2 to 5	XI 750 to 1,000
IV 5 to 10	XII 1,000 to 1,250
V 10 to 25	XIII 1,250 to 1,500
VI 25 to 50	XIV 1,500 to 2,000
VII 50 to 100	XV 2,000 or greater
VIII 100 to 250	

Not Rated Designation

The Not Rated (NR) designation is assigned to companies that are not rated by A.M. Best.