



Life with a new boss

Tony Weller and Mike Palmer tell *IQ* why they submitted to the rigours of an AM Best rating process

➔ **As group CEO of Citadel Risk (Citadel), Tony Weller is often asked what it is like being the boss. He always used to say that being both the CEO and the family behind the capital meant not having to answer to anybody other than the auditors and the Bermuda Monetary Authority!**

However, since Citadel received its A- financial risk rating from AM Best, Tony has now realised that for the first time in many years he has a new boss and a significant reporting mechanism, which has turned out to be a good discipline.

While it is true that the reporting issues have become a bit more serious, there is some method behind the madness of the Best's Capital Adequacy Ratio (BCAR) model. It certainly forces rated companies to think of both insurance and investment risk in different ways than before.

So why did Citadel do it? Group marketing director Mike Palmer is partly responsible. As the new boy at Citadel, when asked by Weller what the company could do to help with finding new UK and European opportunities, he

immediately responded with "Get an AM Best rating."

Over the years the company has lost a good number of opportunities simply because of the lack of a rating. Whether one likes it or not, it is a necessary evil. Citadel is still the same company that it always was. Funnily enough, the one negative AM Best had to say about the company's "implementation risk associated with the innovative business proposition," is in a way its biggest strength.

Many people complain about how long the rating process takes and how difficult it is. Although it was fairly time consuming, we are hoping that was just AM Best getting to know us. We went through the process in 2003 and didn't accept their rating, as they didn't really understand our business model very well at the time.

Since then we have demonstrated consistent profitability, so perhaps the story was more credible with an additional eight years of history. The rating process was more thorough this time, but wasn't that much different to the kind of

queries you deal with during an audit. AM Best were much better to work with than initially feared.

Drive my BCAR

Previously, the BCAR analysis was a more simplistic net asset analysis, but the model seems to have become more complex since we last looked at it in 2003. Although to a great extent it is an objective numeric exercise, there is also a fair bit of subjectivity involved.

AM Best financial strength ratings*

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)

Ratings modifiers

Modifier	Descriptor
u	Under review
pd	Public data
s	Syndicate

* Can be assigned to an insurance company on an interactive or non-interactive basis. In both cases, the rating scale and descriptors are as detailed above.

Source: AM Best

For example, the BCAR gives various haircuts on certain assets that contain risk, for example, anything rated below investment grade, hedge funds, certain receivables and reinsurance recoverable. They are pretty conservative about it, but we didn't want to get in a big debate, as our BCAR was strong enough with or without the adjustments. We might start debating it if we start sailing close to the wind!

Interestingly, while we all focus on the BCAR score, AM Best says that this is not by any means the most significant issue. They take into consideration a lot of qualitative issues, such as the credibility, longevity and integrity of management.

They are very keen to determine your rationale for doing business and how adaptable you can be if markets change. They want to read all the reinsurance agreements and understand where the risk lies in order to get a firm understanding of an organisation's appetite for risk. We were a little taken aback by how much they did want to know, but as long as your own books and

Best's Capital Adequacy Ratio guidelines

BCAR	Implied balance sheet strength
Secure:	
175	A++
160	A+
145	A
130	A-
115	B++
100	B+
Vulnerable:	
90	B
80	B-
70	C++
60	C+
50	C
40	C-
<40	D

Source: AM Best

records are in order, it is not as much of an ordeal as it sounds.

Citadel obtained its rating at the beginning of August and things have been pretty manic since then. At the Vermont Captive Insurance Association conference in Burlington we received a very different reception from brokers, clients and third parties right from the start. And at the Monte Carlo Rendez-Vous the reception we received from the UK brokers was really very positive. Despite the fact that nothing had changed within the company, brokers were now much more willing to hear what we were saying and wanted to understand what we now want to write.

Although for the past few years we have mainly been a US and Bermuda-centric company, we would like to expand our portfolio and look at both UK and European opportunities. Over the past three months we have been visiting a number of UK-based brokers and the reaction has been fantastic.

In broad terms, Citadel is willing to look at almost any class of reinsurance business and has a wide range of policies under coverage including workers' comp, auto (US and European), property casualty, agricultural, professional and product liability (including medical malpractice), catastrophe, financial guarantee and special and alternative risks. Much of what we do is driven by our size, but there are plenty of risks that are "small" or "medium" and we find brokers are often appreciative of a company that comes in and asks: "What have you got that's difficult?"

Look but don't touch

Since Palmer joined the firm in May it's been a rollercoaster ride in terms of the variety of classes of business and slips shown to us from London. We have been looking at more "vanilla" P&C

"As long as your own books and records are in order the rating process is not as much of an ordeal as it sounds"

one week, space and satellite another, right through to worldwide yacht portfolios and some small ABTA travel bond type business. It really has been quite a learning curve! While we are not doing most of what we see, the mixture is quite different.

One of the most important drivers for us (and the most important to AM Best) is the level of detail that we go into when determining if we are going to write a risk or not. Citadel is fairly risk averse as a company but, on the other hand, if there is a perception that something is risky and we determine that isn't, then, all things being equal, we will write the business.

There are lots of people who we will never touch, for example, a professional employer organisation (PEO) in the US or Italian medical malpractice. However, while there might be really good macro reasons for saying that, it doesn't mean that there aren't any good PEOs out there.

If we can't get data, we won't do the programme. We also prefer to know and like the client so we can understand what is motivating them. Whether we like it or not, there is a lot of business out there which nobody should be writing. Citadel tends to prefer a smaller deal where we know the client and can avoid entering a price war with several competitors. If it comes to that, we would rather not even bother looking at the background behind the proposal. The market is soft enough as it is without adding to it.



► Tony Weller is group CEO of Citadel Risk



► Mike Palmer is group marketing director for Citadel Risk