

# Balance sheet Integrity

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## Managing The Cycle

- Approach 1 – Disciplined
  - Not afraid to lose business
  - Holds pricing firm
  - Recognizes negative trends
  - Sets conservative loss estimates
  
- Result:
  - Steady earnings through cycle
  - Strengthens balance sheet over time
  - Candidate for ratings upgrade



# Managing The Cycle

- Approach 2 – Aggressive / Overly Optimistic
  - Capital 'thin' at rating level
  - Cuts rates to grow top line
  - Inadequate prices 'justified' through optimistic reserving
  - Expands business w/o underwriting expertise
  - Burns way into new market by slashing prices
  
  - Result:
    - Eventual reserve charge
    - Sizable operating loss
    - Sudden weakening of balance sheet
    - Candidate for ratings downgrade



3

# Managing The Cycle

- Approach 3 – Market Follower
  - Does not have scale or profile to drive rates
  - Must follow larger players' actions (pricing, coverage, terms & conditions) to stay in market
  - Risk of losing market share to new entrants
    - Some loyalty from agency base but lowest price often wins business
  
  - Result:
    - High tide raises all boats
    - Volatile earnings through cycle (peaks and troughs)
    - Balance sheet strength diminished during soft cycle
    - Generally maintains lower ratings



4