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Risk and Compliance

How to Improve Your AM Best Rating A Guide for Insurance Providers



Is Your AM Best Rating Holding Your Business Back?

With so many insurance companies to choose from, consumers are seeking convenient ways to compare providers to ensure they select a reliable, trustworthy company. That's why many consumers use the AM Best rating as part of their selection process.

There are a range of factors that contribute to an AM Best rating: it's not just a company's financial stability and the ability to meet its obligations to policyholders that are considered; the rating also examines the risk and compliance processes within the insurance company. AM Best believes that risk management is the common thread that links balance sheet strength, operating performance, and business profile.

There are five key areas linked to risk and compliance that could improve your AM Best rating – get these right and your financial strength rating will take care of itself.

5 Key Areas to Improve Your AM Best Rating

Enterprise Risk Management

WHY?

Broadly speaking, enterprise risk management (ERM) encapsulates everything an organization has and does towards actively managing risk. An ERM program helps companies to manage risks and maximize opportunities. To do this effectively requires relevant departments and functions to work together so that the company can achieve a holistic view of its risk environment. AM Best looks favorably upon a robust ERM program because this demonstrates that the organization is in possession of the best available information to inform sound business decisions from a risk perspective – decisions that ensure stability and drive future success.

AM Best believes that a strong ERM program – **“establishing a risk-aware culture, using sophisticated tools to consistently identify and manage, as well as measure risk and risk correlations”** – shows that an insurance company cares about the long-term success of the business.



HOW?

To lay the foundations for this, you must have a solution in place that helps your company see an ‘enterprise wide’ view of risk, through which you can identify, quantify, and manage risk holistically and consistently. This will help you use risk management fundamentals – such as credit, market, underwriting, and operational – in your strategic decision-making process, which AM Best rates highly.

AM Best perceives risk management as being paramount to an insurer’s long-term success. Therefore, within the rating process, you are expected to explain how you identify, measure, monitor, and manage risk regardless of your company’s size or complexity. Having achieved all this, you must strive for continuous improvement. AM Best expects you to constantly refine your ERM framework, including the development of internal economic capital modelling, to score highly.

Robust ERM programs are underpinned by bespoke governance, risk and compliance (GRC) software solutions that deliver a structured and systematic approach towards managing organizational risks in the business. These systems consider risks holistically, ensuring users from every department add data and take actions to ensure leaders get an integrated view of risk. They can then use the data and reports as part of their AM Best scoring process.

2 Risk Appetite

WHY?

Risk appetite is about looking at what might happen and determining if the outcome could be positive (an opportunity) or negative (a risk) for your company. This can be accurately calculated using the real-time data from your risk management program – empowering you to make the right decisions for the business. Am Best look for a well-developed risk appetite statement – which outlines the level of risk a company is prepared to accept in pursuit of its objectives. It is a crucial layer in this process and provides compelling benefits:

- Better management and understanding of risk exposure.
- Facilitates informed risk-based decisions.
- Improves resource allocation.
- Improves transparency for investors, stakeholders, regulators, and credit rating agencies.

AM Best considers your company's risk appetite before determining if the types of risk you are taking could be detrimental to the long-term prospects of the business – key to this is your risk appetite statement. Equally, if your company is too risk-averse, you may receive a poor AM Best rating as you are unlikely to grow and prosper.

AM Best demands in-depth information on risk appetite, before examining how your company is using the information to drive decision making and corporate strategy. They will consider your current risk appetite statement, which outlines the level and type of risk your company is willing to accept while pursuing its business strategy. Your risk appetite statement should communicate: corporate values, strategy, stakeholders, and risk capacity.



HOW?

The following steps will help you achieve a balanced risk appetite that scores highly with AM Best:

- Understand your strategy, goals, risk-taking experience, risk culture and stakeholders.
- Analyse your risk profile and risk capacity before conducting a qualitative risk assessment and a quantitative risk analysis.
- Clearly define your risk appetite in your risk appetite statement.
- Implement best practice tools to monitor risks against the defined tolerances across your company.

Risk management tools play a vital role in determining and managing your company's risk appetite. Failure to embrace emerging technologies will cause you to underperform in the AM Best benchmarking process. Developing, articulating, and applying your risk appetite requires data collection in a suitable format through a GRC solution. This vital tool facilitates transparent testing and analysis of how a business is tracking against key risk indicators – and drives informed decision making.

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3 Regulatory Compliance

WHY?

Regulations are developed and implemented to ensure companies are operating fairly, legally and in line with recommended processes. The insurance industry is highly regulated, bringing compliance into sharp focus for companies as regulators continue to update existing regulations and expand into new areas. Recent regulatory actions make it clear that insurers can expect higher levels of accountability and enforcement going forward and the expectations of state and federal regulators are growing more demanding.

Failure to comply with new and existing regulations can expose you to huge fines and reputational damage, potentially leaving your company in an unstable position. The detrimental impact of non-compliance on insurers current position and future prospects has, therefore, made regulatory pressures an influential factor in the AM Best rating process.



HOW?

To score highly with AM Best, your company must implement best practice tools to manage regulatory compliance proactively. Companies that still rely on clunky manual processes such as spreadsheets and emails will receive an unfavorable rating. GRC solutions provide built-in regulatory horizon scanning, so you can see what changes are coming and how they might impact your business, before ensuring relevant stakeholders are notified and involved – providing you with the foresight required to consistently meet your regulatory obligations.

Once these measures are in place, you can begin tracking your progress against your obligations and address any issues. This allows you to define workflows linked to internal processes, so when change happens your company knows it has been dealt with by the appropriate department – and it has an audit trail of proof.

A comprehensive solution can also provide the flexibility to manage compliance assessment programs effectively, which will ensure controls and related activities are designed to meet regulatory requirements. Furthermore, you can systematically manage various engagements with regulators, including requests for information.

4 IT Security

WHY?

Cyber-attacks in the insurance industry are growing exponentially as companies embrace digital channels to improve customer relationships, offer new products and expand their share of customers' financial portfolios. While these digital investments provide new strategic capabilities and opportunities, they also expose companies to new cyber-risks and attack vectors – and they often lack the controls to mitigate them.

With data breaches on the rise, AM Best believe IT security should be a top priority for business leaders. High-profile breaches can damage reputation and result in significant financial losses. This has brought policyholder security into sharp focus for AM Best when rating insurance companies. This personally identifiable information is one of the most valuable targets for cybercriminals.



HOW?

Implementing robust IT security controls will, therefore, contribute to a high AM Best rating for your company. To achieve this, you must understand that your ability to establish a robust cybersecurity posture does not just sit with IT teams and systems. There is a myriad of factors to consider as hackers develop and execute innovative attacks that are designed to compromise company data.

Effective IT security risk management, therefore, demands a holistic approach that considers everything from staff training and culture to internal systems and third-party providers. You can achieve clear visibility of these risks from a company-wide perspective by implementing a purpose-built IT risk solution that integrates with internal systems and processes to provide a holistic view of cybersecurity. This comprehensive platform will allow you to demonstrate the processes you have in place to minimize IT risk and protect the business by capturing relevant information, displaying results via intuitive dashboards, and delivering reporting functions.

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Operating Performance

WHY?

Operating performance determines how effectively assets are converted into earnings, and how efficiently resources are used to generate revenue. AM Best views operating performance as a leading indicator of future balance sheet strength and long-term stability. Weak earnings will not allow a company to execute on its business strategy and will mean organizations become unsustainable over time. In general, more diversity in earnings streams leads to greater stability in operating performance. AM Best's analysis of operating performance focuses on the stability, diversity, and sustainability of the company's earning sources and the interplay between earnings and liabilities.

They believe that the operating performance of an insurer will dictate its sustainability because without solid performance its balance sheet strength will erode over time – damaging its long-term financial stability. Therefore, you must demonstrate that your company integrates strong risk-management practices into its core operating processes, allowing you to execute your business plan effectively.



HOW?

Your company is likely to score highly with AM Best if you track and manage your operating performance using best-practice GRC software – and use it to link your operating performance to risk management, corporate objectives, and strategic plans. An effective GRC solution will ensure operational risk is managed as part of a wider risk management plan by considering a range of important factors, such as third-party risk, IT operations, and compliance operations.

Your operational risk program can be further strengthened by linking risk to a structured control framework. GRC Software can help you link controls to automated workflows and alerts so any failures or non-compliances are highlighted and dealt with by the relevant teams immediately.

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Conclusion

It's clear to see how a comprehensive risk and compliance program that is underpinned by a robust GRC solution will contribute to an improved AM Best rating. The challenge is integrating software that can drive meaningful decision-making from a risk perspective using data that is aligned to business objectives and KPIs. Achieve this and your business will be well-placed to adapt and be resilient during normal business operations and through disruptive events.

How Camms Can Help

Camms.Risk – a cloud-based SaaS solution – facilitates risk, incident and compliance management across all IT systems and processes within one platform. This central point of oversight has the power to drive key risk requirements for your business, including operational risk, enterprise risk, IT risk, compliance, and regulatory change.

To understand how **Camms.Risk** can enhance your risk and compliance programs and improve your AM Best rating request a demo.

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