LEVERAGE RATIOS

Leverage Ratio Formula

Leverage Factor = \frac{\text{Earned Premium (EP)}}{\text{Average of (Year-beginning + Year-end Policyholders' Surplus)}}

The data used in the calculations were taken from the 2004 and 2005 editions of A.M. Best’s Aggregates & Averages. To calculate the Leverage Factor by Line, we allocated the Policyholders’ Surplus to each line of insurance.

Components used to calculate the 2003 & 2004 Allocated Policyholders’ Surplus “by Line”:

Data Source:

Policyholders’ Surplus:

Premiums (Written, Unearned and Earned):
Page 156 - Underwriting & Investment Exhibit, Part 1 - Columns 1, 2, 3 and 4.

Unpaid Losses, prior year:
Page 159 - Underwriting & Investment Exhibit, Part 2 - Column 6.

Unpaid Losses & Expenses:

Unpaid Expenses, prior year:

See Calculation of Leverage Factor [Earned Premium to Average Surplus] Exhibit:


Columns [6] & [12] % of Reserves, by Line = \frac{\text{Total Reserves (by Line)}}{\text{Total Reserves (all Lines)}}


Column [14] 2-Year Average Surplus
= \frac{(2003 \text{ Surplus by Line} + 2004\text{ Surplus by Line})}{2}
Leverage Factors (con’t)


Column [16]  Calculated Leverage Factor = \frac{2004 \text{ EP}}{2\text{-Year Average Surplus}}

Note: The leverage factor for Earthquake is set at 1.00

Additionally, the Commercial Multi-Peril (CMP) line has been split into CMP Liability and CMP Non-Liability. The allocation is based on the ratio of the reserves for each sub-line to the total reserves for CMP Combined. Similarly, the Auto Physical Damage line has been split into Personal (Private Passenger) Auto Physical Damage and Commercial Auto Physical Damage, with the allocation based on the ratio of reserves for each sub-line to the total reserves for Auto Physical Damage Combined.

Data Source -- allocations for these sub-lines are based on :

Data From A.M. Best’s Aggregates and Averages – 2004 Edition (Calendar Year 2003),
Page 151: Exhibit of Premiums and Losses (Statutory Page 14 Data)

Data From A.M. Best’s Aggregates and Averages – 2005 Edition (Calendar Year 2004),
Page 165: Exhibit of Premiums and Losses (Statutory Page 14 Data)