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Criteria | Insurance | Property/Casualty:
Liquidity

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All insurance organizations need to be highly liquid. Standard & Poor's Ratings Services assessment of this important area identifies the sources of cash and enables Standard & Poor's to identify companies with strengths or weakness in this generally strong category.

The primary source of liquidity is derived from operating cash flows. Although cash flow from underwriting is considered in the analysis of investment income, it is essential to measure this element in assessing liquidity. It is important to measure both the absolute level of cash flow from underwriting as well as the ratio of cash inflows (premiums collected and other) to cash outflows (paid losses, paid loss expenses, and underwriting expenses). This measure highlights whether insurance underwriting activities are healthy. In addition, it is necessary to analyze total cash flow, again in terms of absolute levels as well as a ratio. This addresses the total corporate financial health and liquidity.

A second source of liquidity for a property/casualty insurer is its investment portfolio. It is relevant to measure this again both in absolute dollar terms and as a ratio to the total invested assets.

Standard & Poor's also reviews the liquidity of the insurer's investment portfolio in relation to any significant catastrophe exposures that might be present. In such events, insurers could need to liquidate assets quickly to pay claims.

Finally, it is relevant to take into consideration other outside sources of liquidity, such as bank lines of credit and established commercial paper programs.

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