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March 20, 2013

## *Food For Thought*

### **CAMELS vs. SIMULS**

There was an interesting article<sup>2</sup> in the WSJ today about bank regulators' use of a long-known mnemonic dubbed CAMELS to assess the overall financial solvency of a bank / financial institution. Briefly, CAMELS is a 5-point rating system (with 1 being strong and 5 being weak), that is used by bank regulators to assess six components of performance for a bank / financial institution. While, we are not aware of a similar process used by insurance regulators for their risk-focused examinations, the table below is an attempt to map the six components used in the banking industry to their conceptual equivalents in the insurance industry.

Banking		Insurance	
Component		Component	
C	<b>C</b> apital Adequacy	S	<b>S</b> urplus
A	<b>A</b> sset Quality	I	<b>I</b> ntestments
M	<b>M</b> anagement	M	<b>M</b> anagement
E	<b>E</b> arnings	U	<b>U</b> nderwriting
L	<b>L</b> iquidity	L	<b>L</b> iquidity
S	<b>S</b> ensitivity to market risk	S	<b>S</b> ensitivity to market risk

As shown in the table above, the conceptual equivalents for insurance regulators would be Surplus, Investments & Underwriting, with the other three concepts of Management, Liquidity and Sensitivity to market risk essentially staying the same. While the resulting mnemonic of SIMULS is probably not as easy to remember as CAMELS, it's a concept that is worthy of further consideration, in our opinion.

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<sup>1</sup> *Food For Thought* is a periodic publication of JP CONSULTING tailored to address specific issues of interest in the insurance and banking industries. The opinions expressed in this publication are those of its authors alone – Joseph Prakash, CFA and Professor Herb Jacobs, New York University – School of Continuing Education. If you wish to have your name removed from the distribution list, please respond to our e-mail with the word “Unsubscribe” on the subject line of the e-mail.

<sup>2</sup> [http://online.wsj.com/article\\_email/SB10001424127887323639604578370652442003468-1MyQjAxMTAzMDIwMDEyNDYyWj.html?mod=wsj\\_valettop\\_email](http://online.wsj.com/article_email/SB10001424127887323639604578370652442003468-1MyQjAxMTAzMDIwMDEyNDYyWj.html?mod=wsj_valettop_email)