

# How We Rate Insurers

August 30, 2019

## Key Takeaways

- S&P Global Ratings' global framework for rating insurance companies is outlined in "Insurers Rating Methodology."
- The methodology describes how we assess an insurer's stand-alone credit profile, which, together with the support framework, determine the issuer credit rating.
- Our analysis is forward-looking and typically uses projections for the current and upcoming two years, as informed by the past five years.

Here we provide an overview of S&P Global Ratings' insurers rating methodology. For full details on how we rate insurers and apply the criteria, see "Insurers Rating Methodology" published July 1, 2019.

The insurers rating methodology applies to all global-scale foreign and local currency, long-term issuer credit, financial strength, and financial enhancement ratings on insurers in the life, health, property/casualty, mortgage, title, and bond insurance and reinsurance sectors (including start-up and run-off entities). The criteria also apply to ratings on obligations other than hybrid instruments. The criteria do not apply to ratings on insurance brokers.

The insurance criteria describe how we assess the stand-alone credit profile (SACP) of an insurer. The SACP, together with the support framework, determine the issuer credit rating (ICR) on an insurer. For most companies, the financial strength rating (FSR) and financial enhancement rating (FER), if any, are identical to the ICR.

The methodology for analyzing the creditworthiness of insurers is forward-looking. Our analysis typically uses projections for the current and upcoming two years, as informed by the past five years, unless otherwise stated, and takes into consideration:

- Developments since the most recent financial statements; and
- Developments that have a reasonably high degree of certainty of occurring.

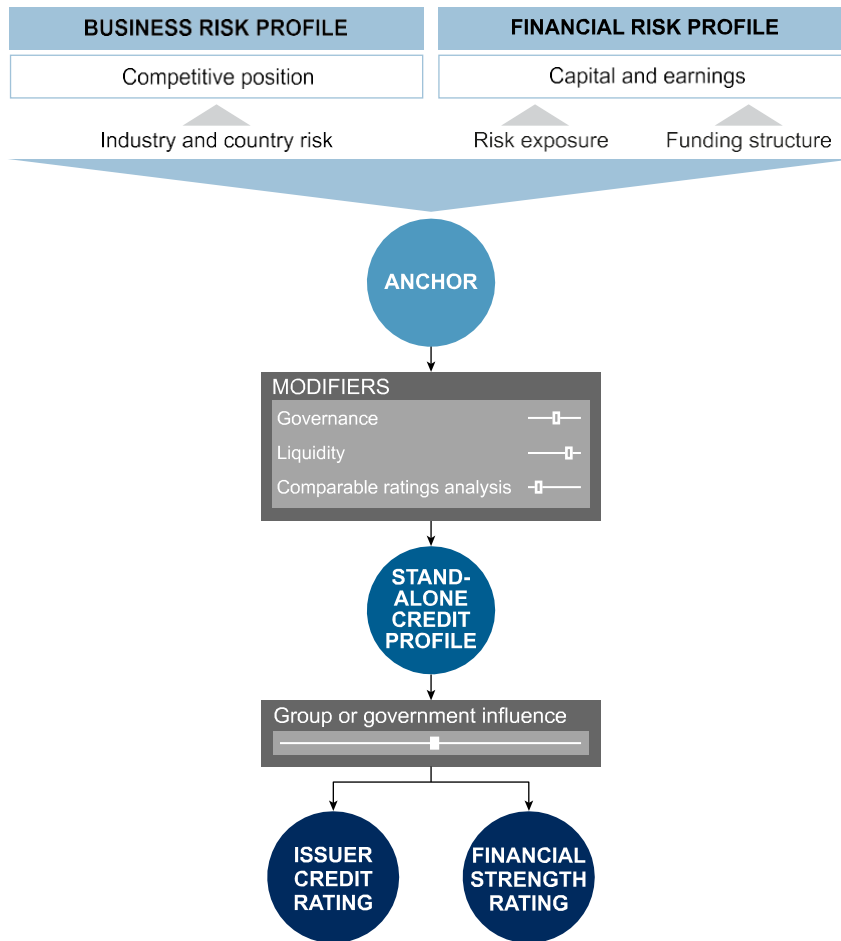
The assessment of the SACP is based on the following key factors (see chart):

- Competitive position,
- Insurance Industry And Country Risk Assessment (IICRA),
- Capital and earnings,

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- Risk exposure,
- Funding structure,
- Governance, and
- Liquidity.

## Insurance Ratings Framework



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We determine the long-term ICR on an insurer as follows:

- The business risk profile (BRP) is based on our analysis of an insurer's competitive position, modified by the IICRA.
- We assess competitive position based on our analysis of competitive advantage (including assessing market or niche position, scale or efficiency of operations, brand name recognition or reputation, and strength of distribution), business diversity, and profitability.
- The financial risk profile (FRP) is based on our analysis of an insurer's capital and earnings, modified by risk exposure and funding structure.

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- We derive the anchor from the combination of the BRP and the FRP (see table 1).
- We then modify the anchor by our assessment of governance, liquidity, and any adjustment due to our comparable ratings analysis to determine the SACP (see table 2).
- We derive the ICR by combining the SACP and the support framework, which determines the extent of uplift, if any, for group or government support, or the risk of extraordinary negative intervention or sovereign-related risks.
- The FSR equals the ICR unless the present default risk leads to a rating conclusion of 'CCC+' or lower, or unless policyholder obligations, but not other financial obligations, are supported by a more creditworthy counterparty.

Table 1

### Anchor

		--Financial risk profile--						
Business risk profile								
	1.Excellent	2.Very Strong	3.Strong	4.Satisfactory	5.Fair	6.Marginal	7.Weak	8.Vulnerable
1.Excellent	aa+	aa	aa-	a+	a-	bbb	bb+	b+
2.Very Strong	aa	aa/aa-	aa-/a+	a+/a	a-/bbb+	bbb/bbb-	bb+/bb	b+
3.Strong	aa-/a+	a+/a	a/a-	a-/bbb+	bbb+/bbb	bbb-/bb+	bb/bb-	b+/b
4.Satisfactory	a	a/a-	a-/bbb+	bbb+/bbb	bbb/bbb-	bb+/bb	bb-/b+	b/b-
5.Fair	a-	a-/bbb+	bbb+/bbb	bbb/bbb-	bbb-/bb+	bb/bb-	b+/b	b-
6.Weak	bbb+/bbb	bbb/bbb-	bbb-/bb+	bb+/bb	bb/bb-	bb-/b+	b/b-	b-
7.Vulnerable	bbb-/bb+	bb+/bb	bb/bb-	bb-/b+	b+/b	b/b-	b-	b-

Where table 1 indicates two possible outcomes, we determine the anchor as follows:

- For FRPs that we assess as satisfactory or stronger, we consider the relative strength of both the business risk and financial risk profiles within the cell. This is based on a holistic assessment of the relative strengths of the key factors of the BRP and FRP.
- For FRPs that we assess as fair or weaker, we typically place more weight on the relative strength of the key factors of the FRP.

Table 2

### Determining The SACP

Anchor	'aa+' to 'b-'
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<b>Governance</b>	
Neutral	0 notches
Moderately negative	-1 notch
Negative	-2 or more notches
--	

Table 2

**Determining The SACP (cont.)**

**Liquidity**

Exceptional	0 notches
Adequate	0 notches
Less than adequate	Capped at 'bb+'
Weak	Capped at 'b-'
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Comparable ratings analysis§	+1, 0, -1 notch

\*The cumulative impact of modifiers does not lower the anchor below 'b-'. §The comparable ratings analysis cannot be used to raise the SACP above the caps imposed by less than adequate and weak liquidity.

We may apply an adjustment, to determine the SACP, of up to one notch in either direction based on our comparable ratings analysis to capture a more holistic view of creditworthiness. Our comparable ratings analysis incorporates additional credit factors, which the criteria do not separately identify, as well as existing credit factors not fully captured that may be informed by peer analysis.

**Related Criteria**

Insurers Rating Methodology, July 1, 2019

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