Article Title: ARCHIVE | Criteria | Insurance | General: Ratings Bearing A "pi" Subscript: Methodology And Assumptions Data: (EDITOR'S NOTE: — This criteria article is no longer current. It has been superseded by the article titled "Criteria | Insurance | General: Insurers: Rating Methodology," published on May 7, 2013.) 1. Standard & Poor's Ratings Services is clarifying how it applies its criteria to derive insurer financial strength ratings bearing a "pi" subscript for U.S. insurers that file statutory financial data with state regulators. We are publishing this article to help market participants better understand our approach to these ratings. Our approach constitutes specific methodologies and assumptions outlined in "Principles Of Corporate And Government Ratings," published June 26, 2007. SCOPE OF THE CRITERIA 2. These criteria apply to U.S. insurers that file statutory financial data with state regulators and that have financial strength ratings bearing a "pi" (public information) subscript. SUMMARY OF CRITERIA UPDATE 3. Our criteria for determining ratings on insurers are covered in the articles listed in "Table Of Contents: Standard & Poor's Insurance Ratings Criteria." Please see "Standard & Poor's Ratings Definitions," published Aug. 20, 2010, for a description of how we use the "pi" subscript as a qualifier of our ratings. When we use the "pi" subscript for our ratings on U.S. insurers, we supplement our analysis with the U.S. Insurance PI Model (PI model), which uses information gathered from regulatory filings. IMPACT ON OUTSTANDING RATINGS 4. We do not anticipate any ratings changes as a consequence of this criteria update. EFFECTIVE DATE AND TRANSITION 5. These criteria are effective immediately for all insurer financial strength ratings bearing a "pi" subscript. METHODOLOGY AND ASSUMPTIONS 6. Our criteria for determining ratings on insurers are covered in the articles listed in "Table Of Contents: Standard & Poor's Insurance Ratings Criteria." U.S. Insurance PI Model 7. The basic analytics that we apply are identical for all global insurers. But because of the availability of regulatory information in the U.S., which provides more granularity than U.S. GAAP financial statements, we have developed a model to supplement our analysis of ratings bearing a "pi" subscript. The PI model supplements our analysis of U.S. insurers that file statutory financial data with state regulators. Purpose of the PI model 8. The PI model uses a statistical framework that features benchmarks related to the following categories of analysis: capital adequacy, operating performance, investments, competitive position, and liquidity. It produces a quantitatively derived result that identifies strengths or weaknesses in each of these categories. We use these results to establish a relative ranking of default risk for U.S. insurers, which we then factor into our analysis. 9. The application of our insurance ratings criteria to the information publicly available is a baseline to guide our rating determination. The strengths or weaknesses that the PI model identifies for any insurer supplement our ratings process. We will adjust the ratings determination to the degree that we view these strengths or weaknesses as significant. Summary description of the model 10. The PI model uses U.S. statutory financial data from insurers' regulatory financial filings as the primary source of information. The PI model calculates a series of ratios (described below) that identify strengths or weaknesses in capital adequacy, operating performance, investments, competitive position, and liquidity. Each ratio has a benchmark associated with each rating level. The model then applies a "weak link" test to the company, beginning at the lowest rating level ('CCC'). If the company passes the benchmarks at 'CCC', then it advances to the 'B' benchmarks, and so forth, until it fails the benchmark test at a specific rating level. We will adjust our initial ratings determination to the extent these benchmark tests identify a strength or weakness that we view as significant. 11. In addition to the calculated ratios, the PI model incorporates simplified versions of our capital model (see "Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model," June 7, 2010) and the life insurance liquidity model (see "Life Insurance Criteria: Liquidity," April 22, 2004). We incorporate simplified versions of the capital and life insurance liquidity models into the PI model because we have less information on insurers that have ratings with a "pi" subscript. For example, the life insurance liquidity model uses a detailed breakdown of reserves by line of business. For the PI model, we estimate reserves based on industry averages, since more precise individual company data are not available in public filings. 12. The PI model includes different ratios and benchmarks depending on the type of insurer. For example, return on assets is the earnings ratio we prefer for life insurers, whereas return on revenue is the ratio we prefer for property/casualty insurers. 13. The following are the significant ratios we use as benchmarks in the PI model: Total capital and change in total capital; Return on assets (life insurers) or revenue (property/casualty insurers); Standard deviation of five-year return on assets or return on revenues; Change in operating income; Risk assets to capital (risk assets defined as investments in equities, speculative-grade bonds, real estate, and nonperforming mortgages); and Leverage (capital divided by liabilities). RELATED CRITERIA AND RESEARCH Principles Of Corporate And Government Ratings, June 26, 2007 Group Methodology, April 22, 2009 Evaluating Insurers' Competitive Positions, April 22, 2009 Management And Corporate Strategy Of Insurers: Methodology and Assumptions, Jan. 20, 2011 Analysis Of North American Life Insurance Operating Performance, May 13, 2009 Analysis Of NonLife Insurance Operating Performance, April 22, 2009 Risk Return Analysis Using Embedded Value, Aug. 18, 2008 Embedded Value Is A Key Driver In Standard & Poor's Evaluation Of Life Insurers' Earnings, April 12, 2006 Investments, April 22, 2009 Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010 Methodology For Incorporating Incremental Stress Factors Into The Capital Adequacy Analysis Of U.S. Insurers, April 12, 2010 Evaluating Liquidity Triggers In Insurance Enterprises, Nov. 11, 2008 Health Insurance Criteria: Liquidity, April 22, 2004 Life Insurance Criteria: Liquidity, April 22, 2004 Property/Casualty Insurance Criteria: Liquidity, April 20, 2004 Financial Flexibility, April 22, 2009 These criteria represent the specific application of fundamental principles that define credit risk and ratings opinions. Their use is determined by issuer- or issue-specific attributes as well as Standard & Poor's Ratings Services' assessment of the credit and, if applicable, structural risks for a given issuer or issue rating. Methodology and assumptions may change from time to time as a result of market and economic conditions, issuer- or issue-specific factors, or new empirical evidence that would affect our credit judgment.