Article Title: ARCHIVE | Criteria | Insurance | Life: Group Methodology Data: (EDITOR'S NOTE: —This article is no longer current. It has been superseded by an article titled "Group Methodology," which was published on April 22, 2009.) Over the past few years, corporate managements in the financial services sector have been taking a much harder look at the strategic viability of the businesses they are in. Executives in this sector appear more apt to cut the cord with less-strategic or underperforming operations than they had been in the past. This situation indicates to Standard & Poor's Ratings Services that the strategic significance of subsidiaries in these groups must be reviewed diligently and that subsidiaries that might be viewed as strategic today could be candidates for sale tomorrow. In recent years, there have been several cases of a management selling or spinning-off subsidiaries that it once had considered strategic and to which it had indicated its commitment. On an ongoing basis, Standard & Poor's will be reviewing the strategic nature of rated legal entities within financial services enterprises and the strength of their operational performance within the context of the organizations of which they are a part. To the extent that the strategic importance of these subsidiaries is called into question or operational performance issues are present, the degree of support embedded in the ratings will be reduced. Applying The Group Methodology Criteria The accelerated pace of consolidation has heightened the complexity of analyzing financial services groups. This trend is expected to continue on a global basis. To capture the risks and strengths of this changing terrain, Standard & Poor's has developed and refined its analytic methodology for rating the individual companies within financial services groups. In many cases, Standard & Poor's expects that the group will support subsidiaries, but increasingly it has become necessary to question the ongoing nature of this support in the context of how the subsidiary fits into the long-term strategy of the overall financial services enterprise. Indeed, over the past few years, a number of financial services groups have divested major subsidiary operations or have refocused and redefined subsidiaries that had previously been considered central to their commercial strategy. On the other hand, the refocusing of operations has also occasionally led to changes in which some previously peripheral subsidiaries have become much more integral. A more dynamic management style requires a more dynamic analytic process. During this analytic process, two principal issues need to be addressed: What is the overall financial security of the group? How does each entity in the group, whether a holding company or an operating company, fit into the overall group structure, and what would be the likelihood of group management proving willing and able to support each such entity if significant capital support were required? Conversely, what is the likelihood of group management wanting to sell, putting into run-off, or, ultimately, being capable of walking away from a given group member? When addressing these issues, Standard & Poor's believes that for many financial services groups, it is appropriate to evaluate operating banks, insurers, holding companies, and other subsidiaries—both on an individual basis and in the context of the aggregate financial security of the group. Standard & Poor's also believes that even if a group isolates its riskier lines of business into a so-called bad subsidiary, such segregated risks should not be ignored when analyzing the group. The methodology for analyzing financial services groups attempts to provide a consistent framework for assessing the creditworthiness of the entire organization as well as the individual (rated) entities within it. Standard & Poor's approach essentially comprises three stages: Undertake a consolidated and unconsolidated group analysis to allow notional group ratings to be confidentially assigned across the entire group as though it were a single corporate entity. Establish confidential stand-alone and status quo ratings for each individually rated entity within the group. Complete the analysis by designating each rated entity within the group as either core, strategically important, or nonstrategic to the ultimate parent group and adjust the final public rating accordingly to reflect the appropriate level of group support. Group Financial Analysis The first objective of the group analytical exercise is to establish a set of notional (nonpublic) aggregate ratings for the financial services group under review. By looking at all the operating and holding-company units that are material to the group in terms of size or risk, aggregated ratings are determined that are applicable to the consolidated group risk profile as if it were a single corporate entity. Such aggregated core group ratings become the reference point for any public ratings that may subsequently be assigned to the individual legal entities that actually constitute the group. This group analysis is based on a combination of consolidated and individual company financial data, and the ratings so derived are usually indicative of the counterparty credit, senior debt and, for insurers, financial strength ratings that are deemed applicable to the main operating companies of the consolidated group. These notional core group ratings are internally assessed with respect to the main operating and holding company entities across the group. However, the notional ratings applicable to pure holding companies within groups are derived indirectly, usually by notching down by one to three ratings notches from the notional core group counterparty credit rating assigned to the main operating companies of the group. Any notching or gapping between the notional operating and holding company ratings reflects perceptions of greater default risk for a group's (unregulated) holding company liabilities than for that same group's (regulated) operating companies. Stand-alone and status-quo analyses of individual entities. In the second phase of the group analysis, Standard & Poor's subjects each rated subsidiary to a full credit assessment, including both financial and nonfinancial factors. This process initially produces both stand-alone and status quo rating assessments of the individually rated legal entities within the group. The stand-alone rating is a rating committee's confidential assessment of what a single legal entity within a group would be rated if analyzed exclusively on the basis of its intrinsic merits as a totally independent, free-standing operation. This stand-alone rating is entirely devoid of any influence—whether positive or negative—by external factors at the wider group level. In some circumstances, the committee could conclude that the entity under review would not be viable outside its group, in which case the entity would be assessed on a status quo basis as opposed to a stand-alone basis. The status quo rating is a rating committee's confidential assessment of what a single legal entity within a group would be rated incorporating the benefits or problems of being part of the same group, including such things as access to group distribution, involvement of group management, access to group resources (excluding capital contributions), and the benefit or detriment of the group's financial flexibility. A status quo rating would not include any potential capital contribution from the group. If any strong implicit or explicit group support exists for the group member under review, this will be factored into the existing stand-alone and status-quo analyses to produce a final rating. In generating the final rating, the notching upward, if any, is normally from the status quo rating because in most cases, a divestment of the subsidiary is deemed unlikely. However, if divestment from the parent group were an active analytic concern, the notching upward, if any, would be from the stand-alone rating assessment and not from the status quo rating. Group status: core, strategically important, or nonstrategic? In the third stage of the analysis, Standard & Poor's classifies group members into one of three categories: core, strategically important, or nonstrategic. Certain characteristics of each of these categories can be found in many subsidiaries of varied group status, and not all characteristics need be present for a subsidiary to be considered core or strategically important. However, the following factors are indicative of what a rating committee will closely consider when seeking to establish an entity's group status: Core group companies. Core group companies are those whose existence and operations are considered wholly integral to the group's current identity and future strategy and which Standard & Poor's believes would be supported by the rest of the group under any foreseeable circumstance. Based on analysis of their importance to the entire organization, companies considered core to the group would be assigned the core group ratings that would be applicable either to operating or to holding companies, as appropriate. Core group companies are defined as those subsidiaries: Operating in lines of business integral to Standard & Poor's understanding of the overall group strategy. The activities undertaken or the products sold are very closely aligned to the mainstream business of the company and are often sold to customers in the same target market. Nevertheless, the nature of the subsidiary's business should not be substantially more risky than the group's business as a whole. Sharing the same name or brand with the main group unless there is a strong business-development incentive to use a different name. Separately incorporated—mainly for legal, regulatory, or tax purposes—but de facto operating more as a division or profit center within the overall enterprise, usually exhibiting similar business, customers, and regional focus to other principal operations of the group. Core subsidiaries will often share things like a distribution network and administration with other major operating units. To which senior group management has demonstrated a strong commitment—a track record of support in good times as well as bad. Another indication could be to totally integrate the operations of a subsidiary or affiliate so that it is fully integrated into the entire enterprise. In some cases, an insurance subsidiary might be 90%–100% reinsured internally by the group. That constitute a significant proportion of the parent group's consolidated position, particularly at least a 5%–10% share of consolidated group capital (or capable of reaching this level within three to five years). It is likely also to contribute on a sustainable basis a significant proportion of consolidated group turnover and earnings. That are appropriately capitalized commensurate with the rating on the group. Higher-rated entities are expected to be better capitalized, in line with the rating on the group. That are reasonably successful at what they do or have realistic medium-term prospects of becoming successful relative to both group management's specific expectations of the subject company and the earnings norms achieved elsewhere within the group. The subsidiaries demonstrating ongoing performance problems or that are expected to underperform group management's expectations and group earnings norms over the medium to long-term would not be viewed as core. Where it is inconceivable that the unit could be sold, such as when administrative, operational, and infrastructure dependence on the rest of the group make it impossible to sever the entity from the rest of the parent group. That are at least 51% voting-controlled by the group. Strategically important group companies. These are group companies with ratings that are considered supported by external group factors and which in their own right appear almost to satisfy the core characteristics but where the rating committee concludes that there is some doubt concerning unequivocal eligibility for core group status. All group entities designated strategically important will initially be assessed on both stand-alone and status-quo bases, essentially on their intrinsic merits. The key characteristics analyzed are the operating performance, market position, and capital adequacy of each strategically important subsidiary. However, based on Standard & Poor's analysis of their importance to the overall organization, the final public rating on strategically important subsidiaries will incorporate some additional credit for the likelihood of ongoing group support. In most instances, Standard & Poor's will assign three notches (one full rating grade) of support to the status quo rating on a strategically important subsidiary. Standard & Poor's does not believe that an organization's commitment to a strategically important subsidiary is as strong as the commitment to a core subsidiary. Therefore, in general, it will not bring the strategically important subsidiary rating up to that on the core group members. In other words, the ratings on a strategically important subsidiary, when including implied support, will be at least one notch below the ratings assigned to core group members. However, in some limited circumstances, strategically important subsidiaries to which the group is strongly committed could have the same ratings as those on the core group members. For strategically important entities to have the same ratings as those on the core members, Standard & Poor's must be confident that there is a particularly strong commitment by the group to these entities. To the extent that these entities demonstrate ongoing performance problems, Standard & Poor's believes management is re-evaluating its commitment to these operations or they are part of a corporate restructuring, Standard & Poor's will establish a ratings gap between the subsidiary rating and that on the group. Strategically important subsidiaries are defined as those subsidiaries: That share most of the core characteristics identified above but do not exhibit the necessary size and/or capital adequacy required for core status. That are important to the group's long-term strategy but are operated more on a stand-alone, autonomous basis. That do not have the same name, nor is it readily apparent that the different name has unique value. (In such instances, the concern must be that the different name is being used as a way to distance the parent company from the subsidiary.) That even if not of sufficient size and capitalization to meet core requirements, are nonetheless prudently capitalized for their business risk and within their market environment, with the level of capitalization at least being assessed by a rating committee as clearly compatible with an investment-grade rating. To which group management is committed, and where the subsidiary is not likely to be sold. The rating committee may nonetheless conclude that group commitment might only be valid over a finite period. That share the same customer/distribution base and many other characteristics with the core group but where the nature of the business transacted is of a distinctly higher risk profile than is normal elsewhere within the group and could constitute a potentially significant threat to the earnings and/or financial strength of the consolidated group. That are reasonably successful at what they do or have realistic medium-term prospects of becoming successful relative both to group management's specific expectations of the subject company and to the earnings norms achieved elsewhere within the group. The subsidiaries expected to underperform group management's expectations and group earnings norms over the medium to long term would not be viewed as strategically important. For which the nature of the incurred risks in practice precludes the subsidiary from ever being sold even though the product line and/or market is not core to the group, such as a major subsidiary with a significant but difficult-to-quantify book of latent or contingent liabilities. It should be noted that significant acquisitions are normally expected to be viewed as no more than strategically important rather than core, at least in the first year or two of ownership within the group. The sooner a major acquisition is assimilated, the faster it could move from being classified as strategically important to being recognized as a core subsidiary. On the other hand, significant and sustained operating deterioration or earnings underperformance at a previously core unit could result in its reclassification to strategically important or even to nonstrategic (see below). Unless the group has established international status, subsidiaries located in countries or regions different from the de facto country or region of domicile of the parent might be considered strategic but are usually not accepted as core. This is especially true for subsidiaries in emerging markets. In addition, because of the higher risk of investments in emerging markets, even acceptance of strategic importance might still not prove sufficient cause for a rating committee to assign more than one or two notches as an uplift to the basic status quo rating (rather than the standard three notches that are commonly accorded for strategically important group status elsewhere). In some infrequent instances, subsidiaries may be considered strategically important to the enterprise despite clearly operating outside of the mainstream business of the company. These companies' products might typically be sold to different customer groups and through different distribution channels than those of the group's principal companies. The management of these operations might not be closely integrated into the group. Nevertheless, Standard & Poor's may judge these operations to be an important part of the group's ongoing strategy if group management has demonstrated a strong commitment to the subsidiary, and the likelihood of the subsidiary being sold is accepted as being very remote. In these rare situations, Standard & Poor's will impute two notches of group support into the final public ratings. It also could be appropriate to impute two notches of support in cases when an acquisition has been recently completed but the committee judges it prudent only to recognize the benefits of integration if they happen over time. On occasion, a rating committee may assign more than three notches of credit to the status quo assessment of a strategically important group company if particular circumstances warrant it. This would occur in cases where the subsidiary is too new to be assessed highly on either a stand-alone or a status quo basis but where the committee judges that there is nonetheless a very substantial commitment by the parent to support this particular operation. In particular, this would include subsidiaries with stand-alone or status quo ratings that suffer because of a lack of economy of scale because of their start-up nature. These subsidiaries would be expected to grow into a higher stand-alone or status quo rating, thus justifying their parental commitment. For example, recently launched subsidiaries with a viable but unproven business plan (such as selling via the Internet or by telephone rather than by traditional methods) could fall into this category. Standard & Poor's would not view mature operations as meeting these circumstances. It is worth noting that strategically important status is often considered within Standard & Poor's as being a dynamic state where the subsidiary in question is evolving either toward full core status over time or where its prospective strategic significance to the parent group is perceived as being increasingly questionable. Failure of the group to support any subsidiary that is experiencing financial or operating deterioration would be considered cause for subjecting the supported rating on the subsidiary to severe scrutiny. In addition, putting up for sale or divesting a subsidiary that has support considerations factored into the rating must inevitably trigger a reassessment of the rating. In some cases, it might be appropriate to remove the support from the rating immediately, such as when the subsidiary will be spun off and a committee is able to assess its credit quality on a pro forma basis. In other cases, especially when the regulatory and market framework would likely prevent a severe decline in creditworthiness from being allowed to occur, it could be appropriate to wait before taking any rating action other than placing the rating on CreditWatch. Nonstrategic group companies. Standard & Poor's classifies nonstrategic subsidiaries as akin to passive investments of the group. They are not considered strategic, long-term holdings of the group, and the ratings reflect the concern that they could be sold opportunistically in the near or intermediate term. In most instances, these subsidiaries would be rated on a purely stand-alone basis, and such ratings would almost invariably be lower than the core group rating. If the rating committee were to conclude that for whatever reason, a sale in the near to medium term was unlikely, then this belief would be factored into the analysis, and an appropriate status quo rating ascertained. If the subsidiary possesses several strategically important characteristics, if it is not obviously a candidate for sale over the short term, and if Standard & Poor's believes the subsidiary would receive parental support were it to experience financial difficulties, then one additional notch of support could be added to the status quo rating. Nonstrategic subsidiaries are defined as those subsidiaries: That do not meet sufficient criteria to be designated core or strategically important. That are not prudently capitalized. (Capitalization is not considered consistent with an investment-grade rating.) That are start-up companies operating for five years or less. That Standard & Poor's believes might be sold in the relatively near or intermediate term or be placed in runoff. That are highly unprofitable or marginally profitable and for which there is little likelihood of a turnaround or of additional support from the group. That are in ancillary, nonstrategic businesses. Rating Core or Strategically Important Subsidiaries Higher Than the Core Group Rating There could be rare situations in which a subsidiary is recognized by Standard & Poor's to have operational characteristics in its own right—other than just superior capital adequacy—that cause it to request and clearly merit consideration for a rating above the core group level. Such subsidiaries can be rated at most up to two notches above the applicable core group rating. However, it must be emphasized that to be so rated, the subsidiary must exhibit superior business and operating characteristics relative to the rest of its group and be demonstrably severable and independently sustainable if the parent group for some reason would get into serious difficulties. Moreover, faced with the hypothetical scenario of such severance occurring, the rating committee would need to feel confident that the higher-rated entity would be able to maintain its capitalization unimpaired (i.e., its assets would not be liable to seizure by creditors elsewhere in the group) while remaining able to operate effectively outside the former parent group. The superior and sustainable financial profile of the entity relative to its main parent group would be seen as being further protected if there is outside minority ownership of 10%–20% with effective board representation and if its distribution channels are autonomous of the rest of the group. In addition, a clear economic incentive for a sustained higher rating might also prove compelling. In such situations, Standard & Poor's analytic stance would be to deconsolidate the capital used to fund this higher-rated subsidiary from the analysis of the residual capital available to the rest of the parent group. By considering the resources held at the higher-rated entity to be unavailable to the rest of its group, the standard core group ratings could themselves be lowered. This analytic adjustment may in turn further restrict the initially determined higher rating on the subsidiary because of application of the rule that the maximum allowable differential between a higher-rated subsidiary and its parent group remains two notches. Segmented Ratings: Rating Subsidiaries One Category Above the Rating on the Group A subsidiary may be rated up to one category (three notches) above the group rating assuming its stand-alone business, operating, and capital characteristics can support it and also assuming that the subsidiary can be properly evaluated on a segmented basis. These segmented ratings require a greater degree of protection of the subsidiary's financial strength in the event of financial stress at the group than would exist in the situation outlined in the previous section. As mentioned above, in such situations, the capital necessary to support this higher-rated subsidiary would be deconsolidated from the analysis of the total consolidated capital position, and this could reduce the group rating, which, in turn, could restrict the initially determined higher rating on the subsidiary. To evaluate group subsidiaries on a segmented basis, the following would be necessary: The subsidiary should be severable from the group and able to stand on its own or subcontract certain functions previously provided by the parent. Standard & Poor's would have received an opinion by outside counsel that the subsidiary would not be expected to be taken into administration (or equivalent) in the event of insolvency at the parent-company level. Standard & Poor's would have received a letter from the parent covering the dividend policy from the subsidiary and the independent integrity of the subsidiary. There would exist either an independent trustee with the ability to enforce the protection of the rights of third parties or outside ownership of at least 20% with some independent membership on the board of directors. In all cases, there should be an economic basis for the parent's commitment to maintain the capital to support the higher rating on the subsidiary. Evaluating Start-Ups Under Group Methodology Traditionally, start-ups (operations with a business track record of five years or less) have not been viewed as strategically integral to financial services groups because of their lack of a proven operating history and Standard & Poor's perception that there could be more volatility in their earnings than in existing operations. In view of these issues, Standard & Poor's will not view start-up operations as core to financial services groups. One exception to this policy is the emergence of a growing number of newly established, tax-efficient subsidiaries set up in centers such as Dublin, Bermuda, the Cayman Islands, and the Channel Islands. To the extent that these subsidiaries are set up specifically to serve an important number of existing customers with similar products and services with which the group has had longstanding relationships, Standard & Poor's can consider such subsidiaries core to the group despite their recent creation. If the subsidiary only serves a small cross section of customers or primarily will get business from a new set of customers, at most Standard & Poor's will consider the entity strategically important to the group. Standard & Poor's often sees groups setting up new subsidiaries to sell the same products in a different geographic locale or to sell new products to its existing customer base. Start-up entities that sell essentially the same products already being sold by the group but in a different geographic locale may be considered strategically important to the group if they meet most of the criteria for strategically important entities. Likewise, start-up entities that sell new products to an existing core customer base may be considered strategically important to the group if they too meet most of the criteria for strategically important entities. A letter covering the group's strategic intent for the subsidiary received from management might be helpful in this regard. If Standard & Poor's has been asked to rate a subsidiary and not the entire organization, Standard & Poor's reserves the right to undertake sufficient analysis of the group to determine that subsidiary's potential vulnerability to a weak member of the group, including the parent company. The other group members might not be rated, but their financial and business characteristics will be captured in the analysis that ultimately leads to the single public rating on the given subsidiary. Maintenance-of-Net-Worth Agreements Explicit support may be used to raise the rating on both strategically important and nonstrategic entities within a group. Accepted forms of explicit support are guarantees and, in some cases, net-worth-maintenance agreements. A full guarantee that allows timely cash payments can be used to raise the relevant ratings to the level of the guarantor. In addition, strongly worded net-worth-maintenance agreements can be used as a means of explicit support for both strategically important and nonstrategic subsidiaries, but usually only in cases where a guarantee is legally not available. Under Standard & Poor's group ratings methodology, the rating on a subsidiary that is considered strategically important to the group and that has received an acceptable net-worth-maintenance agreement as explicit support may be raised to one notch below the rating on the entity providing the support. In the case of a nonstrategic subsidiary, an acceptably worded net-worth-maintenance agreement will normally allow the rating on the subsidiary to be raised by one rating category but no higher than one notch below the core group rating. A net-worth-maintenance agreement will be accepted only when Standard & Poor's believes that policyholders or other third-party beneficiaries, such as regulators, can enforce the agreement. In some circumstances, Standard & Poor's could choose to assign highly rated, strategically important subsidiaries the same ratings as those on other core group members if they have received a very strongly worded maintenance-of-net-worth agreement from a core group member. For this to happen, Standard & Poor's must be confident that there is a particularly strong commitment by the group to these entities. To the extent that these entities demonstrate performance problems, Standard & Poor's believes management is re-evaluating its commitment to these operations, or they are part of a corporate restructuring, Standard & Poor's will maintain a gap of one notch between the subsidiary rating and that on the group. Maintenance of tangible net worth. The subsidiary should be prudently capitalized using a multiple of a regulatory solvency margin or regulatory risk-based capital ratio. (In a letter, management should also indicate its intention to maintain the appropriate level of capitalization in line with Standard & Poor's measures of capital adequacy.) The parental support under this agreement should not be capped. Liquidity. The parent will cause the subsidiary to have sufficient cash for the timely payment of contractual obligations issued by the subsidiary. Ownership. The parent will own this subsidiary and must be at least a majority owner, though not necessarily 100%. Successor agreement. The agreement is binding on successors. Duration. The agreement shall continue indefinitely. Rights of policyholders. If the parent fails to perform under this agreement, policyholders or other third-party interests, such as the regulators, have a direct right to enforce this agreement. Modification and termination. Modification or termination can be effected only if such changes do not adversely affect the policyholders' or beneficiaries' interests. Acceptable clauses would include an agreement to support all existing policyholders at the time of termination or an agreement to sell only to an entity with the same rating as the parent. The agreement may be terminated when the subsidiary receives a stand-alone credit rating equal to the supported rating. The effect on the provider credit rating of the support given under a guarantee or a net-worth-maintenance agreement must be evaluated by Standard & Poor's prior to its assigning the supported rating. Guarantee Criteria The term "guarantee" can apply to any form of guarantee, including a parent guarantee, a debt-purchase agreement, a surety bond, a letter of credit, or—in certain circumstances—an insurance contract. In transactions using guarantees as a form of credit enhancement, the evaluation of the creditworthiness of the primary obligor is shifted to an evaluation of the creditworthiness of the guarantor and the compliance of the guarantee with certain criteria. The guarantee criteria are intended to ensure that there are no circumstances that would enable the guarantor to be excused from making a payment necessary for paying the holders of the rated securities. Guarantees that are being relied on by Standard & Poor's should contain the following statements: 1. The guarantee is one of payment and not of collection. 2. The guarantor agrees to pay the guaranteed obligations on the date due and waives demand, notice, marshaling of assets, etc. 3. The guarantor's obligations under the guarantee rank pari passu with its senior unsecured debt obligations. 4. The guarantor's right to terminate the guarantee is restricted. 5. The guaranteed obligations are unconditional—irrespective of value, genuineness, validity, waiver, release, alteration, amendment, and enforceability of the guaranteed obligations—and the guarantor waives the right of set-off, counterclaim, etc. In connection with lease transactions, the guarantee also should provide that in the event of a rejection of a lease in a bankruptcy proceeding, the guarantor will pay the lease payment, notwithstanding the rejection and as though the rejection had not occurred. 6. The guarantee is reinstated if any guaranteed payment made by the primary obligor is recaptured as a result of the primary obligor's bankruptcy or insolvency. 7. The guarantor waives its right to subrogation until the guaranteed obligations are paid in full. 8. The guarantee is binding on successors of the guarantor, and the trustee is a beneficiary of the guarantee. 9. The holders of the rated securities are explicit third-party beneficiaries of the guarantee. 10. The guarantee cannot be amended or terminated without the consent of 100% of the holders of the rated liabilities and/or securities. 11. The guarantor has subjected itself to jurisdiction and service of process in the jurisdiction in which the guarantee is to be performed. These 11 concepts are used in reviewing guarantees in U.S. transactions. If the transactions involve entities that are domiciled outside the U.S., tax provisions and currency-exchange provisions should also be considered. All guarantees are unique to the specific circumstances of the guarantor and guaranteed entities and/or obligations. Consequently, Standard & Poor's reviews each guarantee against these criteria on a case-by-case basis. The analyst will review management's intent, making sure that it is aligned to the legal guarantee. In providing a rating uplift after reviewing a guarantee, Standard & Poor's would expect the guarantee to be long term. If Standard & Poor's views the guarantee as shorter than the obligations it supports, the rating uplift will not be given. Standard & Poor's expects beneficiaries of the guarantee to be able to enforce it. Legal opinions are required to demonstrate that the guarantee is enforceable and that existing policyholders remain protected even after termination. When guarantees are used to enhance the financial strength ratings on insurance companies through the guarantee of only policy obligations, that entity will not have a counterparty credit rating, as the credit strength relies on the guarantee. Standard & Poor's regularly reviews guarantees that enhance financial strength in line with current guarantee criteria.