Article Title: ARCHIVE | Criteria | Insurance | General: Revised Financial Enhancement Ratings Gauge Insurers' Willingness To Provide Timely Payment Data: (EDITOR'S NOTE: —This article is no longer current. It has been superseded by "Financial Enhancement Ratings," published Dec. 10, 2004.) The history of credit-enhancement insurance is short, at least compared with other insurance businesses. Credit-enhancement insurance as it is known today began in the early 1970s with the wrapping (guaranty of payment of principal and interest) by Ambac Assurance Corp., a specially chartered monoline insurer, of municipal bonds and in the mid 1970s with the Municipal Bond Insurance Assn. consortium of multiline property/casualty insurance companies. Under competitive and business pressures, the traditional wrap business evolved into a competitive business consisting not only of full credit substitution by the monoline but, in an increasing number of cases, also of coverage by multiline insurers for targeted fortuities that may or may not fall short of a full principal and interest wrap. In the latter case, the occurrence of such fortuity, if not promptly indemnified by the insurer, may materially affect the issuer's ability to pay timely debt service on the bonds. Credit-enhancement insurance now encompasses instances in which insurance policies may be provided to support payment obligations arising from the underperformance or non-performance of specified assets, cash flows, or counterparties. Credit-enhancement insurance, properly employed, can help speculative-grade cash flows arising out of, for example, unpaid credit card receivables and emerging-market sovereign debt, become the basis of investment-grade bonds. In addition, as insurers underwrite these new classes of business, they (and the investors of these enhanced instruments) are assuming a range of new risks that need to be evaluated. With respect to most insurance-wrapped deals, pricing assumptions until the end of the 1980s posited no losses. For the most part, this assumption was correct. However, with the advent of newer multilines' involvement and the greater complexity of the risks, the picture is not quite as happy. The risk profiles of non-municipal bond transactions suggest that such assumptions are no longer valid. The recognition and quantification of non-municipal risk pose highly pertinent issues for credit-enhancement insurers and, to the extent that credit-enhancement insurers fail to indemnify promptly for losses occasioned by such risks, for investors as well. As Standard & Poor's has stated over the last two years (see, for example, "Financial Guaranties: Beware the Land Mines," CreditWeek, March 1, 2000), multiline insurers and investors tend to have different expectations about credit-enhancement insurance. From the insurer's perspective, claims against traditional property/casualty insurance policies may very well be questioned before payment is made. By contrast, the capital markets have become accustomed—by virtue of the practice of monolines, letter-of-credit providers, and financial guarantors—to expect immediate and full payment if the primary obligor is unable to pay. The form of capital market credit-enhancement insurance is more closely related to financial guaranty or suretyship than to traditional indemnity-based insurance, as they guarantee an obligation to a third party, with the provider retaining a right of recovery against the purchaser of the insurance. It was in response to this inevitable collision of expectations that Standard & Poor's introduced its financial enhancement rating (FER) service in mid 2000. Over the last two years, there have been instances when capital market credit-enhancement insurers (both primary insurers and reinsurers) have refused to honor policy claims in a timely manner. Although this might be an acceptable practice for traditional multiline insurers, it is not acceptable in the capital markets. By contrast, a monoline's refusal to honor a claim would be tantamount to suicide. Such a refusal, even if justified by one or more of the reasons routinely relied on by multilines, would likely materially impair the monoline's credibility and ability to write new business. As a result, the recent focus of Standard & Poor's and the capital markets is on the multiline insurers that write such business in their own risk portfolios, in separate affiliated companies, or spread across traditional pooling arrangements. These entities tend to assume much greater risk than the traditional bond insurers, as in all likelihood this business has been written by more diverse—and potentially less experienced—insurance companies. Financial Enhancement Rating Policy The scope of the FER is limited. First, it is assigned to primary insurers and reinsurers meeting Standard & Poor's criteria and that have assured Standard & Poor's in writing of their understanding that they will make full and immediate payment on demand, regardless of any legal or commercial dispute or of any defense whatsoever, similar to what the capital markets require from monoline insurers. Second, the FER only applies to transactions rated by Standard & Poor's. If, for example, a multiline holding a Standard & Poor's FER fails to make a payment in a transaction not rated by Standard & Poor's, an adverse rating action may not result. In transactions in which credit-enhancement insurance is provided by a participant with an FER, Standard & Poor's would expect the insurer to pay immediately, regardless of any defense or legal or commercial dispute, so the integrity of the transaction is maintained. If the insurer dishonors a policy claim for any reason whatsoever, not only would the FER be withdrawn, but the financial strength rating (FSR) would likely come under review for lowering. Since October 2000 (see Table 1 for a complete list of companies with FERs), some insurers are no longer writing financial enhancement coverage, not only because of the improvement of the traditional nonlife insurance market over the period but also because of the general reallocation of insurance capital during such favorable conditions in their traditional businesses. However, when the market begins to weaken, some of these insurers may return to this business, in part because of its counter-cyclical nature. Table 1 Insurers With Financial Enhancement Ratings COMPANY FINANCIAL ENHANCEMENT RATING AS OF APRIL 23, 2002 ACA Financial Guaranty Corp. A ACE Capital Re International Ltd. AA ACE Capital Re Overseas Ltd. AA Ace Guaranty Re Inc. AAA Allianz Risk Transfer AA Ambac Assurance Corp. AAA Ambac Assurance U.K. Ltd. AAA Axa Re Finance S.A. AAA CDC IXIS Financial Guaranty AAA CDC IXIS Financial Guaranty Europe AAA Centre Insurance International Co. AA- Centre Solutions (Asia) Ltd. AA- Centre Solutions (Bermuda) Ltd. AA- Centre Solutions (U.S.) Ltd. AA- Financial Guaranty Insurance Co. AAA Financial Security Assurance (U.K.) Ltd. AAA Financial Security Assurance Inc. AAA Financial Security Assurance Intl. Ltd. AAA FSA Insurance Co. AAA MBIA Assurance S.A. AAA MBIA Insurance Corp. AAA Radian Asset Assurance Inc. AA Radian Reinsurance Inc. AAA RAM Reinsurance Co. Ltd. AAA XL Capital Assurance Inc. AAA XL Financial Assurance Ltd. AAA Yasuda Kasai Financial Guarantee Insurance Co. Ltd. AAA ZC Specialty Insurance Co. AA- The FER service is meant to offer clarity to investors, banks, and intermediaries. The unwillingness of a multiline insurer to pay its traditional insurance claims quickly will remain an industry characteristic, but the FER service spotlights the companies that have publicly acknowledged the different expectations of capital-markets investors. Multilines are now competing with the traditional providers of credit enhancement, providers that have won the trust of the capital markets. It is only fitting that these new competitors should be held to the same standards as their more established colleagues, at least in capital-markets transactions. Standard & Poor's has revised its financial enhancement rating practice with respect to insurers and reinsurers providing credit-enhancement insurance in Standard & Poor's rated transactions. The revisions are intended to provide a measure of assurance that an insurer with an FER will meet credit-enhancement insurance claims on a full and timely basis. An FER provides market participants with an assessment of an insurance company's willingness and capacity to meet its credit-enhancement insurance obligations and includes a review of the policies regarding the processing of claims drawn against credit-enhancement insurance policies. FERs are assigned only at the request of the insurance company. The policy form contains explicit undertakings consistent with irrevocable and unconditional financial guaranties of prompt and full payment, regardless of any legal or commercial dispute, and all defenses, including fraud, are waived. In addition, Standard & Poor's criteria for an FER require written acknowledgement from the insurer's management that it has disclosed all information material to the insurance commitment and that it will, as a matter of policy, honor claims on a pay-first, timely basis without regard to potential defenses. The purpose of the two-part review is to have the credit-enhancement insurance policy state clearly on its face that it will operate similar to a financial guaranty while having management certify that as a business matter it will pay policy claims or face ratings consequences. Standard & Poor's has expanded its surveillance of outstanding transactions to encompass a review of the insurance provider's claims policies. The counterparty credit, financial strength, and debt ratings on an insurer will be reviewed upon the failure of an insurer with an FER to honor, on a timely basis, claims tendered under a credit-enhancement insurance policy or surety bond in a transaction rated by Standard & Poor's. Standard & Poor's believes the failure to honor a claim drawn under an acknowledged policy, regardless of defenses and irrespective of legal or commercial disputes that routinely arise relative to insurance claims, will impair the insurer's credibility in the capital markets and, consequently, its market position and financial flexibility. In such a case, Standard & Poor's would likely lower the FER to selective default (SD) and subsequently withdraw it. At the same time, Standard & Poor's would review the counterparty credit, financial strength, and debt ratings on the insurer, potentially lowering them materially. The analysis of a multiline insurer's credit-enhancement insurance business will be incorporated into the counterparty credit and financial strength ratings on the multiline. The definitions below set the distinction between the two nomenclatures. FER definition. The FER is a current opinion of the creditworthiness of an insurer with respect to its capacity to pay all insurance obligations and its capacity and willingness to pay credit-enhancement obligations when due. Because timeliness of payment is critical with credit-enhancement and financial guaranties of specific obligations, when assigning an FER, the analysis first looks at the financial strength rating (FSR) on the insurer and then focuses on the company's understanding of and commitment to its credit-enhancement business. The FER is not a recommendation to purchase, sell, or hold a financial obligation in that it does not comment as to market price or suitability for a particular investor. FSR definition. The FSR is assigned only after an insurer has voluntarily submitted to the credit-interview process, including a review with senior management. The FSR process is designed to inform Standard & Poor's of, among other things, how the insurer's general business and its operating and financial management affect the financial strength and its ability to pay policy claims and contract obligations in accordance with their terms. Standard & Poor's monitors an FSR rating and its analytical premises for as long as the rating is outstanding. Monoline bond insurers. For monoline bond insurers, a separate analytic criteria process is detailed at www.standardandpoors.com/ratings/publicfinance (bond insurance book). Credit-Enhancement Insurance from Multiline Insurers With No FER Regardless of whether a multiline insurer has an FER, if the multiline provides credit-enhancement insurance in a transaction rated by Standard & Poor's, it will be analyzed, first on the basis of the FSR methodology. In addition, the FER process requires insurers to certify the payment expectations inherent in credit-enhanced transactions. Insurers with FERs will have demonstrated an understanding of the policyholders' and investors' expectations in these transactions, specifically investors that are looking for assurances on an insurer's willingness to pay a claim. The indicated capital charge or liquidity needs assessment with respect to each transaction in which the multiline provides credit-enhancement insurance provides a reference for the multiline, helping it determine the appropriate premium pricing. Credit-enhancement insurance by multilines with FERs has been provided in the following types of transactions: Collateralized bond/debt/loan obligations. Asset-backed securitization. Structured commercial MBS. Bond insurance/surety (excluding contractor performance bonds). Indeed, an FER component might be appropriate for many hybrid insurance obligations. Other possible examples might include the combination of credit enhancement with residual-value insurance, credit insurance, and mortgage insurance. Financial segments excluded from the FER process are finite insurance and title insurance. Business Position Standard & Poor's evaluation of an insurer's business position takes into account discussions with management and its views concerning the health of the financial guaranty industry, regulatory considerations, and the outlook and execution of its business model. Additional analysis pertains to the competitive environment and strength of the company relative to: Market position, competitive strengths, and weaknesses. Historical track record and comment on prospective growth plans as pertains to targeted products. Organizational structure. Financial guaranty/credit-enhancement product and geographic breadth. Underwriting expertise. Distribution and position among intermediaries and investors. Management and Corporate Strategy Standard & Poor's expects management to fully understand the implications of the FER as to the prompt settlement of claims regardless of defenses or the existence of legal or commercial disputes. Overall, management will be expected to have demonstrated a strategic commitment to the financial enhancement insurance business. The credit-enhancement insurance business of a multiline with an FER should represent a significant volume of business for the insurer. Standard & Poor's would look for the credit-enhancement insurance business to be managed by senior personnel. As a key requirement to the evaluation, the credit-enhancement insurance business should be written with the insurer's senior management's understanding of and concurrence with the business needs of these types of transactions. Additional focus will be on: Management's underwriting expertise and industry standing. Strategic positioning—opportunities to run FER business synergistically with other segments/affiliates of insurance group. Operational risk management skills. Financial management and risk tolerance. Resumes of key managers. Underwriting/surveillance/exposure management procedures for financial enhancement business. Operational risk-management skills. Financial management and risk tolerance.

Resumes of key managers. Policy forms, which are reviewed to determine the scope of the insurer's undertaking.For program lines of business, the review will consist of testing the transactions.As part of its FER analysis, Standard & Poor's will analyze the insurer's claims-handling procedures for credit-enhancement insurance transactions. Management might have set up a separate claims-handling unit or have documented procedures to ensure prompt payment for financial enhancement claims. The insurer should demonstrate an ability and commitment to validate these types of claims in a timely manner. Given the nature of the credit-enhancement insurance business, insurers with an FER are underwriting for the risks of fraud and negligence as a means to settle claims on a timely basis. These policies should be underwritten with the expectation that claims might require expedited treatment and other nontraditional handling procedures. Insurers participating in the credit-enhancement insurance business also will have demonstrated an ability to validate claims within a time frame prescribed within the policy. Insurers with an FER are expected to adhere to claims-settlement procedures as described in the terms and conditions of their policy forms. It is unlikely that insurers participating in this business only occasionally will request an FER. However, if a multiline were to offer credit-enhancement insurance in a transaction rated by Standard & Poor's, the same analysis generally applicable to FERs would apply. Operating Performance Standard & Poor's assessment of an insurer's earnings performance is an integral part of the overall rating analysis. The measurement of earnings focuses on an insurer's ability to execute its business model, translating strategies and competitive strengths into growth opportunities and sustainable performance margins. Although an insurer with an FER is expected to utilize its capital structure to hedge risk, and transaction pricing is based on the risk-adjusted capital requirements needed by management to maintain internal rates of return, the insurer's prospective earnings performance will determine its ability to maintain positive cash flows, financial strength, and the ability to grow and attract capital. To establish a reasonable opinion as to the strength and quality of an insurer's earnings capacity, Standard & Poor's conducts a review of: Underwriting performance. Understanding of the nature of risks and liquidity needs. Risk-adjusted analysis of profit performance and pricing discipline. ROE, ROR, and other performance measures. An insurer's portfolio (on a selective basis) and all transactions of a certain size (to be determined for each company) by Standard & Poor's asset-backed securities and insurance analysts. This review will include a probability of loss analysis as well as the amount of risk transfer within the transactions. Capitalization Analysis of the adequacy and quality of capital includes: Measuring the risk in force. Allocating capital to lines of business based on a determination through either probabilistic/generic models or specific transactional charges. Using depression-stress type capital models when appropriate, primarily with bond insurer. Types of capital and single-risk guidelines. Use of and quality of reinsurance. Sufficiency of capital to cover other risks such as interest, credit, and general business risks. Five-year plan highlighting the types of financial lines that will be written and the expected sources of capital. Sector concentrations and foreign-currency exposure. There are several unique elements in evaluating an insurer's portfolio of financial enhancement transactions as opposed to other lines of business. In contrast with the evaluation of more traditional insurance portfolios, the analysis of financial enhancement transactions will be conducted using gross notional principal amounts. This is because gross notional principal is far more representative of the risk assumed by an insurer, as a proxy for value at risk, than would be indicated under a premium-based methodology. Transactions or portfolios are analyzed either on a comprehensive basis or a more general basis. For investment-grade (rated) transactions, and as applicable to methodologies utilized for the monoline bond insurers, Standard & Poor's will have either rated the underlying assets that have undergone financial enhancement or will have evaluated the risks associated with these assets by employing criteria identical to those used to evaluate these types of risks in structured transactions. For non-investment grade (rated) transactions, bond insurance criteria (as applicable to monoline insurers) utilize a dollar-for-dollar loss factor for each tranche below investment grade as part of their capital charge. For FER multiline insurers, the difference in criteria would be that a diversification factor (4 is used by bond insurers in their denominator for investment grade transactions) could be used at the non-investment grade level because the mono-line bond insurers are held to a higher standard for their business risk assumed. Multiline insurers could still use a diversification factor because of the non-correlation of risks insured versus guarantied/enhanced. Under these approaches, structural protection, including access to collateral, is reviewed. When applying the more general approach, Standard & Poor's analyzes the classes of risks in the portfolio, determines the range of volatility and credit risk associated with the type of transactions, and uses a capital charge assessment at the conservative end of the range as well as a conservative assessment of liquidity needs. The existing methodology for insurers without an FER or for unrated deals is: The notional amount at risk multiplied by Standard & Poor's bond default charge at 'BB' ('B' for emerging markets) at the transaction tenor equals the applied capital charge multiplied by the risk factor based on rating (i.e., 1.50 = 'AA'). No credit is given for the transactions underwriting, the tranche being participated on, or the risk remoteness of a loss occurring. Covariance credit. Insurers that demonstrate that they maintain a diversified portfolio of financial enhancement risks are given covariance credit when their capital needs for this line of business are evaluated. Covariance credit is given on a sliding scale based on the degree of diversification within the financial enhancement portfolio as well as benefiting from diversification into more traditional insurance lines. For a stand-alone financial enhancement company or a financial enhancement subsidiary that is considered non-strategic to its corporate group—see "Standard & Poor's Refines Its Methodology for Analyzing Insurance Groups" at www.standardandpoors.com/ratings/insurance (Analytical Criteria)—Standard & Poor's gives covariance credit only if the company has at least 25 transactions. For a financial enhancement book of business that is part of a multiline insurance group and is considered core or strategically important to its corporate group, Standard & Poor's divides the financial enhancement capital charge assessment by covariance factors to lessen a company's capital needs based on underwriting skills and portfolio diversification. Table 2 Covariance Factors Affecting the Financial Enhancement Capital Charge DIVIDE BY REASON 2 If management maintains sound underwriting practices and has good operational risk management skills. Further credit is given for diversification if the single largest notional principal amount is less than 20% of total notional principal, the notional principal amount of the single largest asset class is less than 33% of total notional principal, or both. 3 If one of the two diversification formulas are achieved. 4 If both of the diversification formulas are achieved. Further credit is given for diversification if the covariance tests are applied uniformly on all rated transactions and do not differentiate between investment-grade and non-investment-grade risks. Reinsurance. Reinsurance has been structured in tranches (layers) to provide both monoline and multiline insurers protection and increased capacity. Where reinsurance has previously been a predominant factor for single-risk management and capital-relief purposes, bond insurers have begun to use it for more fundamental purposes like portfolio reshaping and sector redistribution. Most companies that write FER transactions have adopted this risk-management technique. As relates to required capital, diversification strengthens an overall risk portfolio and reduces concentrations (e.g., by state, transaction, bond issuance) to regional economics. However, pricing is a function of credit risk, expected losses, competition, the cost of capital, and volume. As such, any reinsurance/retrocession procured should entail coverage for the following risks: Credit risk. Where the insurer is substituting its credit rating for that of the insured and involves analyzing the creditworthiness of the insured that it is offering the credit rating. Timing risk. Where the insurer might have to fulfill the obligation of the insured until the insurer can recoup via salvage. Value risk. Where the insurer is guarantying the value of a selected asset at an agreed point in time (includes interest rate guaranty). Performance risk. Guarantying that some future performance (surety) will take place. Reinsurance protection can be provided by either FER or non-FER, reinsurers with step-down credit remaining applicable as to the bond insurance criteria (see Table 3). Table 3 Credit for Reinsurance (%) REINSURER FINANCIAL STRENGTH RATING AAA AA A BBB LOWER THAN BBB OR UNRATED INSURER FINANCIAL STRENGTH RATING AAA 100 70 30 N.C. N.C. AA 100 100 70 30 N.C. A 100 100 100 70 N.C. N.C.—No credit. Standard & Poor's gives credit for reinsurance of financial enhancement portfolios using the existing reinsurance credit methodology for evaluating monoline bond insurers. The insurer is expected to provide a detailed list of reinsurers and their participations in these transactions. If this information is not available, Standard & Poor's gives no credit for reinsurance and will evaluate the exposures on a gross basis. Value of collateral. If an insurer or reinsurer can provide a legal opinion as to its ability to access collateral in a transaction, Standard & Poor's offsets the value of the collateral (as determined by Standard & Poor's) against the capital charge assessed. Collateral evaluated may receive up to 100% of underlying value if an appropriate transaction structure is in place. Liquidity The analysis reviews the ability of the insurer to meet the unique demands of the credit-enhancement market by examining: Sources of liquid assets. Sources of liquid reinsurance (where the reinsurer has an FER). Sources of liquid committed bank lines. Cash demands and the liability structure, including reviewing the policy terms and reviewing correlation among liabilities that might all come due at the same time, causing liquidity stress. Maturity schedule of the enhanced transactions. Matching liquidity needs and available liquidity of the financial enhancement business to other sources or needs of liquidity within the overall organization. As part of its evaluation of a financial enhancement portfolio, Standard & Poor's measures the liquidity risks the insurer is assuming. An insurer is evaluated on the basis of having either a secure or vulnerable level of liquidity. Liquidity requirements do not vary by rating level. Wherever possible, the required liquidity for the financial enhancement program should be measured against the available liquidity for this business. Liquidity requirements will be assessed only for transactions maturing within three years. All transactions with acceleration clauses will be considered to have a maturity of one year or less. Liquidity is evaluated on a gross notional principle basis unless the reinsurers have an FER. The liquidity requirements for transactions backed by letters of credit or bank lines will be partially to fully offset to the extent that the issuing bank is rated 'A' or better. The credit schedule is as follows: Table 4 Credit Schedule CREDIT (%) 100 If bank is rated the same as the insurer. 75 If bank is rated one category or less below the insurer. 50 If bank is rated no more than two categories below the insurer. Liquidity credit will be provided where a reinsurance agreement is provided by an insurer with an FER rating. Standard & Poor's uses four tests to determine the liquidity an insurer is required to have when underwriting financial enhancement transactions: All scheduled principle payments in Year One plus the single largest notional principle amount in subsequent Years Two and Three. The single largest notional principal amount maturing within three years plus all scheduled payments. Half the notional principal amounts of the top five transactions maturing within three years plus all scheduled payments. The sum of all the uncorrelated capital charges for transactions maturing within three years plus all scheduled payments. Two times the largest losses paid in any one year over the last three years. The required liquidity for the financial enhancement program is the largest result of the four tests. The available asset liquidity will be determined by the asset evaluations as laid out in Standard & Poor's life liquidity model group—see www.standardandpoors.com/ratings/insurance (Analytical Criteria/Insurance Liquidity Model). For a multiline insurer writing financial enhancement business, the liquidity needs of the financial enhancement business are combined with the liquidity needs of the traditional property/casualty insurance lines. The liquidity requirements of such traditional property/casualty insurance lines equal twice average losses and loss-adjustment, general, selling, and administrative expenses over a five-year period plus expected net losses on a 1-in-100-year catastrophic event. Liquidity example.Company profile: Largest notional principal amount: $100 million Five largest transactions by notional principal amount: $10 million, $25 million, $50 million, $75 million, and $100 million. 50% of the sum of these is $130 million. The sum of all the uncorrelated capital charges for transactions maturing within three years plus all scheduled payments is $300 million. The largest losses paid in a single year over three years: $10 million. Two times this loss is $20 million. The required liquidity for the financial enhancement program is the largest result of these tests, $300 million. Assuming that the company is a multiline insurer with traditional property/casualty insurance liquidity needs of $500 million, total liquidity needs equal $800 million. This is then compared with available liquid assets. Financial Flexibility The analysis reviews considerations that are comparable with those used for the life and nonlife insurance industries: The ability to attract capital. Sources of soft capital/contingent capital, such as reinsurance and letters of credit. Ownership and immediate sources of capital from related parties. Forms of explicit support. Criteria for Rating Start-Ups Standard & Poor's typically does not rate companies applying for an FER unless they have at least a five-year operating track record or explicit support (most likely from a parent). If these factors are not met, Standard & Poor's would require: A detailed, credible, five-year business plan that addresses the business lines to be written, revenue targets, income targets, and capitalization for each year. Analytically, no prospective assumptions can be made as to a viable stand-alone operation without such information. A review of the policy forms to be issued by the insurer to determine that the policy relates to financial guaranty and not a standard surety. Standard & Poor's will review, evaluate, and rate all financial-enhancement transactions written during the initial start-up period. Evidence of prudent underwriting that provides Standard & Poor's with confidence that an FER start-up can monitor any risk assumed, capital needs, and manage exposures appropriately is also needed. To support such confidence of management's capability, a proven track record and documented underwriting/surveillance/exposure management guidelines/procedures must exist. A review of local regulatory guidelines of the state or country of domicile. A review of any documentation that will be presented to potential investors, a list of potential investors, capital management policies, etc. is also required. Basically, any drafted document used for solicitation of investor capital must be provided. A discussion with at least one key institutional investor, if the person exists, concerning expectations about this start-up. Lastly, start-ups need strategic investors rather than financial investors to provide monetary investment while the company works through the problems inherent in starting up a new business. Initial start-up capital is $300 million (two-thirds must be hard capital) if the company is an insurer and $200 million for a reinsurer. The expectation is that capital adequacy will be above that of the assigned rating over the intermediate term (five years). To satisfy Standard & Poor's view that a start-up should have the financial flexibility to maintain capital consistent with the assigned rating over a longer-term horizon, the company is expected to demonstrate the ability to tap several sources of additional capital if needed. These sources can include reinsurance (up to 33%), borrowing, additional equity offerings, asset sales, or other sources. If the start-up has aggressively tapped several of these sources already, Standard & Poor's would seriously question the company's ability to maintain capital adequacy consistent with a high rating.