MOODY'S
INVESTORS SERVICE

RATING METHODOLOGY

US Health Insurance Companies Methodology

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Analyst Contacts:

NEW YORK +1.212.553.1653

Dean Ungar +1.212.553.6968
Vice President - Senior Analyst
dean.ungar@moodys.com

Stefan Kahandaliyanage, CFA +1.212.553.0317
Assistant Vice President - Analyst
stefan.kahandaliyanage@moodys.com

Scott Robinson +1.212.553.3746
Associate Managing Director
scott.robinson@moodys.com

Marc Pinto, CFA +1.212.553.4352
Managing Director - Financial Institutions
marc.pinto@moodys.com

This rating methodology replaces the *US Health Insurance Companies* methodology published in May 2018. In this update, we have revised our scoring scales for the Operating Environment macro-level indicators to align them with the scoring scales introduced in the November 2019 update to our methodology for sovereigns. We have also clarified that we may assign Baseline Credit Assessments to health insurance companies that are government-related issuers.

Introduction

In this rating methodology, we explain our general approach to assessing credit risk for issuers in the US health insurance industry, including the qualitative and quantitative factors that are likely to affect rating outcomes in this sector.

We discuss the scorecard used for this sector. The scorecard[1] is a relatively simple reference tool that can be used in most cases to approximate credit profiles in this sector and to explain, in summary form, many of the factors that are generally most important in assigning ratings to companies in this sector. The scorecard factors may be evaluated using historical or forward-looking data or both.

We also discuss other rating considerations, which are factors that may be important for ratings but are not included in the scorecard, usually because they can be meaningful for differentiating credit profiles, but only in some cases. In addition, some of the methodological considerations described in one or more cross-sector rating methodologies may be relevant to ratings in this sector.[2] Furthermore, since ratings are forward-looking, we often incorporate directional views of risks and mitigants in a qualitative way.

As a result, the scorecard-indicated outcome is not expected to match the actual rating for each company.

Our presentation of this rating methodology proceeds with (i) the scope of this methodology; (ii) our general framework for rating US health insurance companies; (iii) a discussion of the scorecard factors; (iv) other scorecard considerations; (v) assessing support; (vi) other rating considerations; (vii) assigning entity-level and instrument ratings; (viii) methodology assumptions; and (ix) limitations. In Appendix 1, we describe how we use the scorecard. Appendix 2 shows the US health insurance industry scorecard. In Appendix 3, we describe how we incorporate stress testing in our analysis.

1 In our methodologies and research, the terms "scorecard" and "grid" are used interchangeably.

2 A link to an index of our sector and cross-sector methodologies can be found in the "Moody's Related Publications" section.

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Scope of This Methodology

Long-term Insurance Financial Strength Ratings (IFSRs[3]) for US health insurance companies are assigned at the legal entity level to insurance operating companies.

In addition to long-term IFSRs, we may assign short-term IFSRs[4] to provide institutional investors and financial intermediaries with opinions about an insurance company's ability to pay punctually its short-term senior policyholder claims and obligations. We use the same prime rating symbols for these ratings that we use for other short-term instruments and obligations.[5]

Important aspects of the US health insurance industry include a large private market reflecting insurer participation in both employer-sponsored plans and government segment business, insurers' role in negotiating and managing healthcare costs, and the influence of regulation on products, pricing and operations. For these reasons, this methodology applies to US insurers operating in the US health insurance market.

Other ratings that may be assigned within the group (e.g., senior unsecured debt issued by the insurer or its parent company) are typically determined in relationship to the IFSRs of the group's main subsidiaries.[6]

Our General Framework for Rating US Health Insurance Companies

Our general approach to assessing the credit risk of the various obligations of US health insurance companies is based on an assessment of the financial strength of the main operating units within that organization. This methodology is, therefore, intended primarily to explain our approach to assigning IFSRs to operating insurers. Specifically, the methodology describes our general approach to assigning a financial strength rating of a standalone entity before consideration of support. We also describe how we incorporate affiliate[7] support to move from the standalone credit profile to the assignment of the IFSR.[8]

In rating US health insurance companies on a standalone basis, we focus on qualitative and quantitative characteristics in relation to the company's business and financial profiles, as well as on the operating environment in which it conducts its business.

EXHIBIT 1

US Health Insurance Companies Methodology – Key Factors[9]

Business Profile	Financial Profile
Factor 1: Market Position and Brand	Factor 3: Capital Adequacy and Quality
Factor 2: Product Risk and Concentration	Factor 4: Profitability
	Factor 5: Financial Flexibility

Source: Moody's Investors Service

3 IFSRs are opinions of the ability of insurance companies to pay punctually senior policyholder obligations and claims and also reflect the expected financial loss suffered in the event of default. Please refer to *Rating Symbols and Definitions* for more details; a link can be found in the "Moody's Related Publications" section.

4 Please refer to our methodology that discusses global short-term ratings. A link to an index of our sector and cross-sector credit rating methodologies can be found in the "Moody's Related Publications" section.

5 Please refer to *Rating Symbols and Definitions* for more details; a link can be found in the "Moody's Related Publications" section.

6 Please see our cross-sector methodology that discusses how we assign instrument ratings for insurers. A link to an index of our sector and cross-sector credit rating methodologies can be found in the "Moody's Related Publications" section.

7 "Affiliate" includes parents, cooperative groups and significant investors.

8 The standalone credit profile is an opinion of an insurer's standalone intrinsic strength, absent any extraordinary support from an affiliate or government. An analytic unit generally comprises all the operating companies with common analytic and credit characteristics operating in a single country or geographic region. An analytic unit could include a group of companies operating outside of a single geographic region if significant inter-company support arrangements exist, or if there is a high degree of integration in the management, systems, distribution and operations of the group of companies.

9 The US health insurance industry scorecard also includes an operating environment component.

In the following sections, we describe the key factors underlying a health insurance company's business and financial profiles, as well as the factors that affect its operating environment. We explain our general approach for scoring each scorecard factor and show the weights used in the scorecard. We also provide a rationale for why these scorecard components are meaningful for an insurer's standalone credit profile, what the relevant financial metrics are in analyzing these factors, including regional/supplemental metrics, and how we interpret those metrics. The characteristics of the operating environment also play an important role in our rating analysis, as do other factors such as management, governance, and accounting policy and disclosures. Our assessment also considers the regulatory environment, capital structures, taxation, and laws and the litigation environment. If these factors are not already captured in the Operating Environment component, we may incorporate them qualitatively into our analysis.

US health insurance groups often consist of subsidiaries operating in more than one geographic region. Where this is the case, we typically consider the largest and most significant units of the group (in terms of revenues and earnings, capital, assets or other key metrics), and, where relevant, apply the quantitative metrics in the methodology to this group of key subsidiaries to arrive at weighted average ratios. In some instances, this group of key subsidiaries may be less than 100% of an analytic unit. Also, in some instances, more than one analytic unit~~s~~, each comprising a group of subsidiaries, exist within a US health insurance group. Each analytic unit is typically analyzed separately.

Our ratings are forward-looking and reflect our expectations for future financial and operating performance. However, historical results are helpful in understanding patterns and trends of a company's performance as well as for peer comparisons. Many of the financial ratios are calculated based on a three-year average. However, the factors in the scorecard can be assessed using various time periods. For example, rating committees may find it analytically useful to examine both historical and expected future performance for individual periods or periods of several years or more.

Scorecard Framework

This methodology includes a scorecard, which is used in our analysis and reflects our opinion and judgment on each of the broad factors within the rating methodology. Information we use in the scorecard may include proprietary, non-public data. Business Profile factors represent 35% of the overall fixed scorecard weights, and the Financial Profile factors represent 65%. Weights shown for each factor in the scorecard represent an approximation of their importance for rating decisions, and actual importance may vary substantially. The Operating Environment component, described in more detail later in this report, has a variable weight depending on the assigned score.

The scorecard calculates an unadjusted score for each factor, and analysts typically populate the scorecard with an adjusted score, which can range from Aaa to C. The score is derived from the raw metrics (see Appendix 1), and the adjusted score is based on analytical judgment. The scorecard also factors in the operating environment. We also consider a pre-defined severe stress case scenario.

To arrive at the standalone credit profile for the analytic unit, we may assess the company's management, governance and risk management, accounting policy and disclosures, sovereign and regulatory environment, as well as any special rating situations. To move from the standalone credit profile to the rating, we consider any explicit or implicit support from affiliates, as well as other rating considerations. Scorecard factors and weights can be found below.

EXHIBIT 2
US Health Insurance Companies Scorecard Factors and Weights[10]

	Aaa	Aa	A	Baa	Ba	B	Caa and Lower	Score	Adjusted Score
Business Profile									
Market Position and Brand (15%)									
Total Medical Membership (excluding Standalone PDP) (000)									
Geographic Diversity and Branding									
Organic Membership Growth Rate (3 yr. wtd avg.)									
Product Risk and Concentration (20%)									
Full Risk Membership %									
Premium Concentration									
Product Diversity									
Financial Profile									
Capital Adequacy & Quality (25%)									
Consolidated NAIC Risk-Based Capital Ratio (CAL)									
Goodwill & Intangibles as % of Shareholders' Equity									
Profitability (25%)									
EBITDA Margin (3 yr. wtd avg.)									
Earnings Concentration (3 yr avg)									
Std. Deviation of Medical Loss Ratio (5 yr. stdv)									
Financial Flexibility (15%)									
Financial Leverage - Debt to Capital									
Financial Leverage - Debt to EBITDA									
EBITDA Coverage (3 yr. wtd avg.)									
Cash Flow Interest Coverage (3 yr. wtd avg.)									
Operating Environment									
Preliminary Standalone Outcome									

Source: Moody's Investors Service

Notching Factors and Support Considerations

» Management, Governance and Risk Management

» Accounting Policy and Disclosures

» Sovereign and Regulatory Environment

» Standalone Credit Profile

» Nature and Terms of Explicit Support

» Nature and Terms of Implicit Support

» Scorecard-Indicated Outcome

[10] See Appendix 1 for sub-factor weight details.

Standard Adjustments in the Analysis of Financial Statements

The financial statements we use in our analysis generally have a consistent basis of accounting depending upon the region (e.g., Generally Accepted Accounting Principles (GAAP)). Different accounting conventions can affect – sometimes materially – comparisons among companies operating in different jurisdictions. Accordingly, we make standard and non-standard adjustments, as described below. The qualitative analysis that we employ may also consider accounting system differences, including when we do not have sufficient information to make specific adjustments. To the extent that other accounting conventions are used by a company, we may also use that data for a more direct comparison to peers.

All of the quantitative credit metrics incorporate our standard adjustments to income statement, cash flow statement and balance sheet amounts for items such as underfunded pension obligations and operating leases. We may also make other analytical adjustments that are specific to a particular company.

For an explanation of our standard adjustments, please see the cross-sector methodology that describes our financial statement adjustments in the analysis of financial institutions. A link to an index of our sector and cross-sector credit rating methodologies can be found in the "Moody's Related Publications" section.

In addition to the standard adjustments, we may also make non-standard adjustments to financial statements for other matters to better reflect underlying economics and improve comparability among peers. For example, we may adjust financial statements in order to reflect estimates or assumptions that we believe better reflect an issuer's sustainable forward-looking credit profile. Our adjustments may incorporate non-public information.

Incorporating Scenario Analysis and Stress Testing for US Health Insurance Companies

Developing a forward-looking assessment of an insurer's financial performance under an expected case and stress case are usually important to our assessment of financial strength. Our expectations of an insurer's results over the medium term reflect our opinion of current and projected market conditions. The nature of an insurer's operating and business profile, as well as its product offerings, means that we may have differing levels of confidence in a particular expected case or stress case scenario.

In addition, our credit analysis includes an assessment of the downside risks faced by insurers and their creditors. Because challenging economic and financial events, as well as natural and man-made catastrophes do occur – with potentially adverse effects on the financial and business profiles of US healthcare insurers – we typically include an analysis of stress scenarios as part of our analysis.

Stress analysis can take different forms. To assess the impact of stress on an insurer, we may employ a number of different approaches as each situation dictates, including assessing insurers' own risk modeling frameworks and performing pre-defined and ad hoc scenario analysis. Please refer to Appendix 3 for a discussion of the pre-defined stress scenarios we use in our stress test. Our ratings reflect an expected scenario, but also take into consideration the impact of the pre-defined stress scenarios on a company's credit profile. We generally expect an insurer to be able to withstand moderate stress while maintaining a credit profile consistent with its assigned rating and that the application of the pre-defined stress scenarios (the stress test) would result in a credit profile deterioration of no more than a few notches below the assigned rating.

Discussion of the Scorecard Factors – Business Profile

Factor 1: Market Position and Brand

Why It Matters

Market position, brand and franchise strength are key factors that represent a company's ability to develop and sustain competitive advantages in its chosen markets. Market position incorporates the firm's sustainable advantages in its key lines of business and considers market share; barriers to entry; scale advantages and their translation to expenses; control over pricing; provider contracts, and medical management programs. Additionally, a firm's brand encompasses a company's image and reputation in the market, brand recognition and perception by distributors and end-consumers, and customer loyalty as demonstrated by retention rates, distribution costs, and customer purchases of multiple products.

A company's sustainable competitive advantages – the strength of its competitive position and its prospects for organic growth – can have a direct bearing on its future profitability and ability to generate capital internally. In addition, a health insurance company with a strong market position, brand and competitive advantage is better able to withstand prolonged difficult market conditions and capitalize on new, potentially profitable opportunities that may develop in the future. We believe such companies are more likely to meet their obligations through varied economic periods. Conversely, a weak business franchise can indicate financial stress for a company if it generates low or erratic core profitability, and may lead management to enter unfamiliar businesses, take on new and unfamiliar risks, or leverage the company to a greater extent.

Relevant Metrics

» Total Medical Membership (includes both commercial and government segments but excludes shared membership with another carrier, e.g., BlueCard, as well as, standalone Medicare Part D membership)

» Geographic Diversity and Branding – see definitions below

» Organic Membership Growth Rate (3-year weighted average)[11] – membership growth in a calendar year (excluding membership from acquisitions and mergers) divided by end of prior year membership

Interpreting the Metrics

We consider the size of a health insurance company's membership base within a given insurance market is in assessing the company's market position and brand. The largest companies in terms of membership and premiums within a given local region tend to have higher scores for this factor. Conversely, smaller companies tend to have lower scores for this factor. We note that companies with greater market share and larger medical membership tend to have broader provider networks and better provider contracts, a competitive advantage. These companies are also able to maintain economies of scale and invest in technologies to improve service and medical management programs, and develop new products to meet the demands of the US healthcare consumer market.

Another key measure we monitor is the ability of a company to consistently grow its membership base. We tend to view a declining membership base as a key indicator of financial problems at a health insurance company. These situations may be caused by service problems, a correction to prior underpricing, or the entry of a new competitor. Critically important in the evaluation of a company's market share is the company's ability to exercise underwriting and pricing discipline and effectively utilize appropriate risk management in managing its business growth. Aggressive growth in an intensely competitive lien of business or product can be a negative. The potential for further healthcare reform regulation may prompt some health insurers to develop new strategies, including diversification or expansion of their business in

[11] The results of the three most recent years are weighted 50%, 33% and 17%, respectively.

other areas. However, significant market growth in a specific segment or segments could result in a considerably different risk profile for a company. As a result, our analysis may accord more weight to recent results.

In assessing market presence, we typically consider the breadth and depth of the markets the company targets. We typically consider the company's effective market, brand name recognition, the sustainability associated with the brand, and whether the product is viewed as a commodity or a value-added offering. Typically, companies that are more broadly diversified by marketing area, and are therefore afforded some protection against regional economic downturns or strict state regulations, have higher scores for this factor than health insurers whose business is concentrated in one or a few states.

Measures such as retention rates, reputation, and product cross selling typically are also considerations. Given the number of factors being considered, analysts' judgment plays a part in assessing the relative strength of a company's geographic diversification.

EXHIBIT 3

Summary of Relevant Metrics – Market Position and Brand

	Aaa	Aa	A	Baa	Ba	B	Caa and Lower
Total Medical Membership (excl Standalone PDP) (000)	X≥25,000	25,000> x >15,000	15,000≥ x >5,000	5,000≥ x >1,000	1,000≥ x >250	≤250	N/A
Geographic Diversity and Branding	Large national plan with strong national brand name recognition and leading market share in majority of states	Large national plan with strong brand name recognition and within top 5 market share in majority of states	Large regional company with strong recognized brand name	Multi-state plan with strong brand recognition or multi-state Blue Cross Blue Shield plan	Multi-state plan with each plan operating or branded separately or single state Blue Cross Blue Shield plan	Single state plan with limited operating areas within state	N/A
Organic Membership Growth Rate (3 yr wtd avg)	X≥5%	5%> x >3%	3%≥ x >1.5%	1.5%≥ x >0%	0%≥ x > (5%)	(5%)≥ x (10%)	≤(10%)

Source: Moody's Investors Service

Factor 2: Product Risk and Concentration

Why It Matters

A health insurance company's product offerings are a major influence on its risk profile and creditworthiness because specific product segments exhibit different earnings and cash flow volatility and competitive attributes. The extent of a product's risk is often not fully known and understood at the time the product is first introduced and marketed and underpricing can be an unintended outcome. Additionally, healthcare reform can introduce uncertainty for some product lines while providing more growth opportunities for others.

Companies with higher scores for this factor typically have diverse product offerings. Diversification in a company's product lines can reduce the volatility of that firm's earnings, capital, and cash flow, promoting more efficient use of capital resources. Diversification outside of health insurance products into ancillary businesses, such as specialty benefit products or life insurance, for example, if appropriately managed within reasonable limits, can also help the stability of earnings and thus reduce overall earnings volatility. That said, if a company enters a new line of business without the appropriate underwriting and risk management expertise, diversification would typically be viewed as credit negative. During a soft market, some companies diversify only to subsequently shed those lines of business as poor results become apparent over time.

Relevant Metrics

- Percent of Full Risk Membership – Full risk membership (including experience rated, Medicare, and Medicaid members) divided by total medical membership
- Premium Concentration – average deviation of the company's premium distribution by major line of business segment from a pre-defined average premium distribution
- Product Diversity – assessment of the company's product portfolio

Interpreting the Metrics

We typically analyze the risk inherent in the company's particular business mix and the diversity of the company's business. Product risk can appear in many forms and can have significant adverse effects on a company's earnings and capital adequacy. The risks in specific products can be mitigated or exacerbated by a particular company's risk management practices, as well as its market position, underwriting and pricing practices or medical management, for example. However, a concentration in more volatile lines of business/products is typically viewed as a risk to policyholders/creditors, irrespective of the overall quality of the firm's risk management and underwriting function. A company's response to macroeconomic changes, industry/market conditions, regulatory issues and competitive pressures with respect to its chosen products and markets is also likely to influence its credit profile.

We generally consider the mix between full risk and self-insured business; distribution of premium among commercial, Medicare, Medicaid, and other products; and the diversity of its product offerings within these segments. In our assessment of full risk membership, we consider the company's exposure to volatility in healthcare costs. A higher percentage of full risk business typically results in a lower score for this factor.

The distribution of premiums among commercial, Medicare Advantage, Medicaid, and other businesses provides a measure of the exposure the company has to each of these lines. The comparative views of the growth and stability of each of these segments can change rather suddenly. We believe that a more diversified premium base translates to a stronger credit profile. The metric compares each company's premium distribution to a pre-defined premium distribution of what we consider a well-diversified line-of-business profile. The pre-defined distribution we are using is, Commercial: 45%, Medicare Advantage 30%, Medicaid 15%, Other 10%. A low average deviation indicates a well-diversified company with a premium distribution among these segments that indicates both market strength for growth yet flexibility for retrenchment should circumstances warrant.

The product diversity metric drills down one step further than the premium concentration metric to recognize additional diversity. The scoring for this metric is based on what we consider the range of viable products/markets the company offers or serves, including the following: individual, small group, large group, national accounts, Medicare Advantage, Medicare Supplement, Part D Prescription Drug, Medicaid, TriCare, international, vision, dental, life and long-term disability. Additionally, we consider the mix of regulated and unregulated product lines. We take into account the product's revenue, competitive position, historical growth and future prospects as well as its importance to the company in supporting other products. In addition, we assess the overall diversity and strength of the company's product offerings compared to its competitors.

Beyond the financial metrics, we also may consider a company's underwriting controls, pricing sophistication, staff, and technology in the context of the company's chosen lines of business. We also may consider the quality of diversification: the company's ability to manage diverse businesses unrelated to the core; the synergies, or lack thereof, among diversified businesses; and the degree to which diversified businesses detract from a focus on the core or add value to the enterprise as a whole.

EXHIBIT 4

Summary of Relevant Metrics – Product Risk and Concentration

	Aaa	Aa	A	Baa	Ba	B	Caa and Lower
Full Risk Membership %	x≤20%	20%< x <40%	40%≤ x<60%	60%≤ x<80%	80%≤ x<100%	≥100%	N/A
Premium Concentration	x≤2%	2%< x<8%	8%≤ x<15%	15%≤ x<25%	25%≤ x<35%	35%≤ x≤45%	>45%
Product Diversity	Company has a well-diversified product line with a wide array of health insurance products, a strong supplemental and group benefits product segment, and additional unregulated businesses	Company has a well-diversified product line with multiple health insurance products, and a strong well-diversified supplemental and group benefit product segment	Company offers a well-diversified product line with multiple health insurance products and additional ancillary product offerings	Company offers a variety of health insurance products and a limited number of supplemental products	Company offers a limited variety of health insurance products and may also offer a small number of supplemental products	Company essentially operates in one health insurance segment with a limited number of product offerings	N/A

Source: Moody's Investors Service

Discussion of the Scorecard Factors – Financial Profile

Factor 3: Capital Adequacy and Quality

Why It Matters

An important element of our assessment of a health insurance company's creditworthiness is our opinion about the company's economic capital and its regulatory capital adequacy (e.g., solvency) or operational leverage. Economic capital is the cushion available to the company to absorb unfavorable deviations in its results. Capital adequacy is critically important for a health insurer because it provides a signal of financial capacity to customers and because insurance regulators require minimum capital levels or ratios in order for the company to continue to operate. Capital constraints can also negatively impact a company's ability to grow its business and impact its strategy.

For a health insurance company, the goodwill and other intangible assets associated with acquisitions (purchase price over fair value of tangible assets) may represent a potentially significant portion of capital. For example, the value of networks and provider contracts, often a key component of the purchase price in an acquisition, is recognized as an intangible asset on the balance sheet. Although acquisitions within the health insurance sector can be well-executed we consider that the integration process is fraught with operational risks that could lead to the impairment of these values. In addition, in a shifting competitive landscape and potentially changing consumer preferences with respect to how healthcare is delivered, it is unclear whether these values may erode over time.

Relevant Metrics

- National Association of Insurance Commissioners ("NAIC") Risk-Based Capital (RBC) Ratio – NAIC RBC ratio consolidated for all insurance operating subsidiaries (including non-health companies)
- Goodwill and Intangible Assets as % of Shareholders' Equity – GAAP goodwill and intangibles divided by shareholders' equity

Interpreting the Metrics

The NAIC RBC system uses a formula that establishes the minimum amount of capital necessary for a health insurer to support its business given its size and risk profile. While we look at the consolidated RBC at company action level (CAL), which combines the NAIC RBC ratios for each operating health insurance subsidiary (and any other insurance subsidiary) of the group, we also examine the capital level, RBC measure, and state insurance department requirement of each operating subsidiary individually. Key risk components factored into the RBC framework include asset risk, underwriting risk, credit risk, and business risk. Companies with higher scores for this factor tend to have higher RBC ratios.

The ratio of goodwill and intangibles to shareholders' equity provides an indication of the strength and quality of a company's equity capital base as well as an indication of the acquisitiveness of the company. Extensive growth through acquisitions usually elevates the credit risk of a company because of the integration challenges and the uncertainty about the ultimate costs and benefits, as well as incremental earnings, to be realized from the acquisition in the context of the purchase price and financing. While we assess acquisitions for strategic fit and consider implications to the company's market position and overall diversification, companies with higher scores for this sub-factor tend to have a lower ratio of goodwill and intangibles to equity than companies with lower scores for this sub-factor.

We also incorporate in our assessment of capital adequacy the indications derived from an insurer's internal capital model, if available. We consider the company's capital model by assessing several factors including: a) the model's scope and operation; b) the extent of its incorporation into the company's day-to-day decision-making processes; and c) state regulatory review and approval, where relevant. We may also consider comparisons of capital positions using the companies' proprietary economic capital models within a peer group. This may lead to qualitative adjustments of scores, because assumptions made in one company's model may be different from assumptions used in another company's model.

In assessing capital adequacy, the potential impacts of stress environments are evaluated. These include pre-defined stress scenarios incorporating potential losses on liabilities and investments (see the "Incorporating Scenario Analysis and Stress Testing for US Health Insurance Companies" section above). Also, emerging risk areas are considered in our assessment of prospective capital generation and adequacy.

EXHIBIT 5

Summary of Relevant Metrics – Capital Adequacy & Quality

	Aaa	Aa	A	Baa	Ba	B	Caa and Lower
Consolidated NAIC Risk-Based Capital Ratio (CAL)	X≥400%	400%> x >300%	300%≥ x >200%	200%≥ x >150%	150%≥ x >100%	100% ≥ x >50%	≤50%
Goodwill and Intangibles as % of Shareholders' Equity	x<15%	15%≤ x<25%	25%≤ x<35%	35%≤ x<50%	50%≤ x <80%	80%≤ x <120%	≥120%

Source: Moody's Investors Service

Factor 4: Profitability

Why It Matters

A health insurance company's earnings capacity – both quality and sustainability – is a critical component of its creditworthiness because earnings are a primary determinant of the company's ability to meet its policy and financial obligations, the primary source of internal capital generation to support capital adequacy, and a key determinant of access to the capital markets on favorable terms. A key measure of how a health insurer performs in its most critical function, pricing and managing healthcare costs, is its medical loss ratio (MLR).

Relevant Metrics

» EBITDA Margin – Adjusted EBITDA divided by total revenue (3-year weighted average)[12]

» Earnings Concentration – the average deviation of the company's earnings distribution (by product) from a pre-defined base earnings distribution[13]

» Standard Deviation of Medical Loss Ratio (5-year measure)

Interpreting the Metrics

In general, companies with higher scores for this factor tend to have higher earnings and less earnings volatility than companies with lower scores for this factor. EBITDA (adjusted for pensions and leases) is used to measure as close as possible the operational earnings of the company and exclude the volatility that can be caused by gains or losses from unusual situations and other one-time events. While these other items are important, we consider the cause, nature, management's actions and the likelihood of reoccurrence. Due to the potentially rapidly changing dynamics and regulations in the health insurance sector, more weight is given to recent results.

Similar to the considerations surrounding product and premium distribution, the diversity/concentration of earnings is an important consideration in a company's credit profile. Our view is that a more diversified earnings base with less reliance on one product or sector translates to a stronger credit profile. The Earnings Concentration metric is defined as the average deviation of the company's earnings results from a pre-defined earnings distribution of what we consider a well-diversified company. The pre-defined distribution we are using is Commercial 35%, Medicare 25%, Medicaid 15%, Other 25%. To smooth out year-to-year fluctuations, the metric uses a three-year average of the company's earnings distribution.

A high average deviation in this metric indicates an over reliance on one or a relatively small number of products, while a low average deviation represents a well-diversified earnings profile which would indicate some ability to weather an unforeseen development in a particular segment.

A profitability measure that provides insight into the effectiveness of a health insurer is the MLR. The ratio of incurred medical costs divided by health insurance premiums provides a measure of how adequately its prediction of healthcare costs, as reflected in premiums, matches up to its ability to manage costs. With the use of minimum medical loss ratio regulation and the variety of products offered by insurers, the absolute level of a company's MLR has become less indicative of its performance. Instead, the standard deviation of the MLR is intended to measure its stability over time. In our assessment, we consider situations where a company's portfolio has changed significantly over time and make an appropriate adjustment.

[12] The results of the three most recent years are weighted 50%, 33% and 17%, respectively.

[13] For this metric, a company's earnings distribution is derived using a 3-year average.

EXHIBIT 6

Summary of Relevant Metrics – Profitability

	Aaa	Aa	A	Baa	Ba	B	Caa and Lower
EBITDA Margin (3 yr. wtd avg)	x≥10%	10%> x >8%	8%≥ x >5%	5%≥ x > 3%	3%≥ x >1%	1%≥ x >0%	≤0%
Earnings Concentration (3 yr. avg)	x≤0%	0%< x < 9%	9%≤ x< 20%	20%≤ x<32%	32%≤ x<44%	44%≤ x≤50%	>50
Standard Deviation of Medical Loss Ratio (5 yr. stdv)	x≤0.25%	0.25%< x <1.0%	1.0%≤ x <1.75%	1.75%≤ x <2.5%	2.5%≤ x <3.25%	3.25% ≤ x <5%	≥5%

Source: Moody's Investors Service

Factor 5: Financial Flexibility

Why It Matters

It is important for a health insurer to not only be able to fund its business growth via internal capital generation but also to maintain capital market confidence and demonstrate the ability to service its obligations without stress. Companies benefit from having the capacity to raise capital externally for additional growth or acquisitions, and to meet unexpected financial demands whether those come from an unusually negative credit/market environment, earnings volatility, or other planned or unplanned capital needs. Financial flexibility – as indicated by financial leverage/double leverage, earnings coverage, dividend coverage, and access to capital markets – is a key determinant of an insurer's credit profile.

Relevant Metrics

» Financial Leverage - Debt to Capital: Adjusted financial debt (financial debt including preferred stock + Moody's pension, hybrid and operating lease adjustments) divided by (adjusted financial debt + shareholders' equity)

» Financial Leverage - Debt to EBITDA: Adjusted financial debt (financial debt including preferred stock + Moody's pension, hybrid and operating lease adjustments) divided by adjusted EBITDA

» EBITDA Coverage (3 yr. wtd avg): Adjusted EBITDA divided by (interest expense and preferred dividends) (3-year weighted average)[6]

» Cash Flow Interest Coverage (3 yr. wtd avg): Dividend capacity (regulated and unregulated) from subsidiaries divided by (interest expense and preferred dividends) (3-year weighted average)[14,15]

Interpreting the Metrics

There are two financial leverage metrics used in our methodology. The first, debt to capital, measures the amount of a company's capital base that is financed through borrowed money. The second financial leverage metric, debt divided by EBITDA, measures the number of years of a company's annual earnings that are required to cover total debt. These two different views of leverage, from a capital perspective and an earnings perspective, are given equal weightings in the methodology.

In the calculation of these metrics, we apply our standard adjustments. Total debt includes short and long-term debt, which can be issued at an operating company or holding company. The calculation considers all forms of debt (including surplus notes and hybrid securities – adjusted for Moody's Debt/Equity

[14] The results of the three most current years are weighted 50%, 33% and 17%, respectively.

[15] Where the parent company is also the main operating company, this metric is not calculated. Instead, additional weight is given to the EBITDA coverage metric.

Continuum[16] – plus unfunded pension obligations and operating leases) used to fund the company's operations as leverage. Shareholders' equity in the adjusted financial leverage calculation includes accumulated other comprehensive income (AOCI), as we believe reported equity and the impact of changes in AOCI, primarily from changes in value of investment securities, impact the markets' perception of health insurers' ability to access capital markets at attractive funding costs. Consideration is also given to leverage metrics calculated using shareholders' equity without AOCI, especially during periods of volatile interest rate changes or where assets are reported at fair value but liabilities are reported at book value. In general, health insurance companies with higher scores for this factor tend to have lower levels of financial leverage.

In addition to our standard adjustments, further adjustment to these metrics is sometimes necessary for individual companies. For example, an adjustment may include as debt an off-balance-sheet obligation because we believe the company will support the debt obligation, if necessary, because of reputation or economic incentives. We also believe it is important to consider in tandem with our financial leverage metric the total debt profile of a group, on an unadjusted basis (apart from pension obligations and operating leases) and including operating debt. Although potentially match-funded, operating debt nevertheless involves external debt-raising and needs to meet certain criteria to avoid being classified as financial leverage.[17]

Other considerations incorporated into our opinions about financial leverage may include, where applicable, a company's double leverage (i.e., investments in subsidiaries funded by parent company debt or a stacked ownership structure), historical trends, management's target level for leverage relative to current position, and debt maturity profile, as well as the complexity of the capital structure itself.

The debt capacity of an insurer can also be implied by its earnings capacity and dividend capacity relative to its interest expense and dividends, although there can be substantial variability in these figures from year to year. Health insurers with higher scores for this factor tend to have stronger earnings and cash flow coverage metrics than companies with lower scores.

The focus of the earnings coverage ratio is on coverage of interest expense and dividends. The ratio is calculated on a consolidated basis and utilizes pre-tax and pre-interest consolidated net income before depreciation and amortization with adjustments made for pensions and leases. Because there can be regulatory restrictions on dividend capacity from an operating company to its holding company, the earnings coverage ratio is evaluated in the context of the insurer's actual flexibility in terms of cash available to be sent up to the holding company.

The cash flow coverage ratio assesses the flexibility of the parent holding company, which usually is the issuer of debt and/or hybrid securities.[18] The ratio relates the recurring sources of cash to the holding company to its uses of cash. For cash sources, we use the amount of ordinary and extraordinary dividends actually received up to the maximum amount of dividends the company is allowed to upstream from its regulated subsidiaries without regulatory approval, plus net cash upstreamed from any non-regulated companies less any capital infusions made to operating subsidiaries. For cash uses, we include interest expense and dividends at the holding company.

16 We believe that it is appropriate for our credit analysis to limit the amount of total equity credit that is derived from the issuance of hybrid securities within a capital structure. Please refer to our cross-sector rating methodology for hybrid equity credit. A link to an index of our sector and cross-sector methodologies can be found in the "Moody's Related Publications" section.

17 Please refer to our cross-sector rating methodology that discusses how we evaluate operating debt used by insurance companies. A list of our sector and cross-sector credit rating methodologies can be found in the "Moody's Related Publications" section.

18 See our cross-sector methodology for assigning instrument ratings for insurers for more information on the relationship between IFSRs and other ratings. A link to an index of our sector and cross-sector methodologies can be found in the "Moody's Related Publications" section.

In analyzing the coverage ratios, we generally consider any differences that may exist between interest expense and the cash payments associated with interest. We also typically assess the interrelationship between cash flow coverage and earnings coverage by considering: a) whether material earnings are generated in states where dividend extraction is more difficult, b) if the parent has meaningful and consistent sources of cash flow from unregulated entities, and c) the relative levels of dividend capacity compared to earning capacity. In instances where dividend capacity significantly exceeds earnings capacity, this may indicate dividend capacity is unlikely to be replenished should a significant dividend be made.

We also recognize that it is important for a company to maintain capital market confidence. Ready-access to the capital markets is necessary for health insurers in the case of needing to raise capital after a severe unexpected event, to fund an acquisition, or simply to expand internal growth plans. The inability to access the capital markets at all, or on attractive terms, can significantly impair a company's financial flexibility. As a result, we view a health insurer's access to the capital markets – which can be limited by outsized financial leverage, poor coverage, or its mutual/private ownership status – as important.

We additionally may consider a company's backup lending facilities and letter of credit arrangements and the conservatism of covenants, if any, embedded in borrowing arrangements. Strong backup facilities with limited restrictive covenants enhance financial flexibility for a company, particularly in times of stress.

EXHIBIT 7

Summary of Relevant Metrics – Financial Flexibility

	Aaa	Aa	A	Baa	Ba	B	Caa and Lower
Financial Leverage - Debt to Capital	x≤20%	20%< x <30%	30%≤ x<40%	40%≤ x<50%	50%≤ x<65%	65%≤ x<80%	≥80%
Financial Leverage - Debt to EBITDA	x≤0.5x	0.5x < x <1.0 x	1.0x ≤ x<1.5x	1.5x ≤ x< 2.5x	2.5x ≤ x< 3.5x	3.5x ≤ x< 5x	≥5x
EBITDA Coverage (3 yr wtd avg.)	x≥16x	16x > x >13x	13x ≥ x > 9x	9x ≥ x > 5x	5x ≥ x > 3x	3x ≥ x > 1x	≤1x
Cash Flow Interest Coverage (3 yr wtd avg)	x≥10x	10x > x >7x	7x ≥ x >5x	5x ≥ x >3x	3x ≥ x >1x	1x ≥ x >0.5x	≤0.5x

Source: Moody's Investors Service

Other Scorecard Considerations in Determining the Standalone Credit Profile: Notching Factors

Management, Governance and Risk Management

We evaluate an insurer's management, governance and risk management processes as part of our credit assessment. However, an insurer's management, governance and risk management only affect the scorecard-indicated outcome to the extent we believe they are not reflected in the preliminary standalone outcome derived from the Business Profile and Financial Profile discussed above. Notching for these factors has typically been limited. That said, in some instances, further assessment of management, governance or risk management may lead to upward or downward notching. Considerations in this factor include:

» Key person risk. A high dependence on a single executive or group of executives can pose increased risks, because the loss of a single person could adversely affect the insurer's future fundamentals. For example, an insurer whose corporate customers closely associate the chief executive with the institution itself could suffer loss of business, earnings and ultimately, reduced capital if the chief executive were to leave, absent adequate succession planning.

» Strategy and management. A radical departure in strategy, a shake-up in management, or an untested team can all herald sudden change that increases the uncertainty about risk profile. An aggressive growth plan can also signal an elevated risk appetite, while clear weaknesses in risk management can increase exposure to adverse developments. Any concerns regarding the rigor of Board or management oversight may also be considered here.

» Dividend policy. An aggressive dividend policy may imply reduced financial flexibility. Management teams are often slow to reduce established dividend levels out of concern over negative signaling and adverse share price impact. (The same can be said of share buybacks, although to a lesser extent, as the timing and certainty of execution of even announced buyback programs leave greater management discretion).

» Compensation policy. Similarly, an aggressive compensation policy, for example, widespread use of high bonus payments relative to salaries, and skewed towards cash, may encourage short-term risk-taking behavior to the detriment of bondholders.

We may reduce our preliminary standalone outcome if we judge that any of these factors has a material bearing on the insurer's overall risk profile. Typically, this would be one notch but could be more if we perceive multiple and/or more deep-seated and serious issues. We may also adjust our preliminary standalone outcome upwards, for example where we perceive sustained exemplary stewardship over time, or exceptional risk management and controls, with a tangible impact on the insurer's risk profile.

Accounting Policy and Disclosures

Relevant and timely financial information is a critical part of any financial analysis. While many health insurers prepare financial information under generally accepted accounting principles, financial information is also generally prepared on a statutory basis of accounting, which may be different from generally accepted accounting principles. For some non-public health insurers, this may be the only basis for which public financial data are available.

Poor quality financial reporting or lack of transparency in disclosure is considered a credit negative. In addition, internal control breakdowns, if severe, are also considered a credit negative.

Some companies have chosen to provide market participants with easy access to their own financial data, which we view favorably. The consistent application of financial information is a fundamental presumption of financial analysis. When evaluating accounting principles, we consider how well financial reporting mirrors economic reality. Where we believe the economics of a transaction are not consistent with financial reporting, we may make analytic adjustments to metrics derived from financial statements to facilitate our analysis.

Sovereign and Regulatory Environment

Only US-domiciled insurers operating in the US health insurance market fall within the scope of this rating methodology (please see the "Scope of This Methodology" section above). Therefore, the US is the applicable sovereign operating environment in this case.

Deterioration in sovereign credit quality can directly affect the credit standing of insurers domiciled within the sovereign, and, more generally, tends to be associated with macroeconomic and financial market trends that are unfavorable for all.[19]

[19] See our methodology that discusses how sovereign credit quality can affect other ratings. A link to an index of our sector and cross-sector methodologies can be found in the "Moody's Related Publications" section.

Issuers in the same sovereign environment are exposed to some degree to the transmission of shocks across sectors in the economy and the domestic banking system. In addition, they are subject to defensive sovereign actions that can include austerity measures, changes in tax or regulatory policies, and interference during a crisis. Given this linkage, sovereign credit quality can constrain the IFSR of an insurer.

Our cross-sector methodology that discusses how sovereign credit quality can affect other ratings describes how we consider the insurer's geographic diversification, direct exposure to government debt and product characteristics in analyzing these impacts. Those insurers with high geographic diversification, low direct exposure to government debt and product characteristics less sensitive to sovereign risks can have an IFSR above the sovereign rating, but generally no more than two notches above.

Moving from the Standalone Credit Profile to the IFSR — Assessing Support

While the above factors are critical in order to determine the standalone credit profile of health insurers, the analytic consideration of support – explicit or implicit – from a parent company or affiliate is necessary to determine the IFSR, which can be higher than the company's standalone credit profile. It is important to note that a well-capitalized, profitable insurance operating company with a highly leveraged parent or a weak affiliate often has a lower IFSR than it would have were it a free-standing company because of the pressure those factors can place on its earnings and capital.

Support from a Parent Company or Affiliate

The credit rating of a health insurer can ultimately be affected by its relationship to its parent, a subsidiary, or affiliate companies through either explicit or implicit support.[20] We incorporate support from a parent company or affiliate into the rating by narrowing the spread (expressed in number of rating notches) between the standalone credit profile of the entity/security and the rating of the entity providing the support.[21]

Ultimately, our assessment of the extent to which the affiliation benefits the rating is based on a number of variables, including the supporting company's level of commitment to the geographic location of the affiliate, brand-name sharing, our assessment of how important this entity is to the overall enterprise business model, its size relative to the whole, its geographic proximity to the supporting entity, existence of shared regulatory oversight, full or partial ownership, and its integration with the rest of the organization from a management, distribution, and operating perspective, as well as our view of the company's ability and willingness to support that entity. Support is evaluated incorporating an assessment of past actions of the support provider, current public statements of support and our view of future support.

Our judgment of how the prospective supporting entity is likely to behave in the future is strongly influenced by our assessment of its prospective economic motivations. Accordingly, strong public statements of support would not be a persuasive reason to raise the rating of a weaker subsidiary if a sound economic rationale for doing so is lacking. Although support may provide uplift to a company's rating, it may not necessarily raise it to the same level as that of the supporting entity.

While, in most instances, support is incrementally positive, there are instances where group affiliation may constrain the rating of an entity/security relative to its standalone level. For example, if the insurer is

[20] For additional discussion of our rating guidance related to support, see our cross-sector methodology on rating non-guaranteed subsidiaries, which includes credit considerations for assigning subsidiary ratings in the absence of legally binding parental support. A link to an index of our sector and cross-sector credit rating methodologies can be found in the "Moody's Related Publications" section. In addition, affiliate companies generally refer to companies outside of the analytic unit.

[21] When this occurs, our research typically describes the relationship between the analytic unit and the supporting organization and provides a discussion of the standalone credit profile of the analytic unit.

affiliated with weak or highly leveraged entities, such associations usually, in turn, weaken the insurer. Capital often flows from stronger to weaker companies within a controlled group, and frequently before regulatory action can occur.

Explicit support is usually intended to transfer the credit of the supporting entity to the supported affiliate or obligation. Explicit support is generally in the form of a capital maintenance agreement, minimum net worth agreement, or some type of direct guarantee. It can also take the form of management contracts, marketing arrangements, reinsurance agreements or tax-sharing agreements.

In analyzing explicit support, we consider the specific legal nature and enforceability of the support, as well as its possible termination. Explicit support, depending on its structure, can achieve credit transference and bring the affiliate's rating up to that of the supporting entity. However, we also make an assessment as to whether the extension of this support (as well as with implicit support) will weaken the credit profile of the parent or affiliate.

Where support is present, the IFSR typically receives one or two notches of uplift from the standalone credit profile. Although rare, three or more notches of uplift is possible although typically only when strong explicit support is provided. In addition, uplift such that the supported entity's rating is equal to the supporter's rating is rare without meaningful explicit support. This can be the case even where the company's management states that the subsidiary is core to its ongoing strategy and operation, primarily due to the risks that the supporter may change its strategy or the supporter's regulator may constrain support in times of stress, particularly if support is to be provided outside of their own jurisdiction.

Where the owner-supporter is the US federal government and we are using this methodology to assign a BCA, to incorporate support we use our methodology that discusses government-related issuers and the joint default analysis approach described therein. For clarity, support from an owner that is not the US federal government is incorporated using the support portion of the health insurers scorecard, whereas support from the US federal government is considered outside of the health insurers scorecard.

Factoring in Support from Other-Than-Related Entities

Our ratings of health insurance companies do not typically reflect an expectation of government support. Based on our observations, we believe government support would neither be widely offered nor sufficiently reliable nor predictable to be routinely incorporated into our health insurance company ratings. In the limited cases where such support is received, we consider its credit implications on a case-by-case basis. If we believe government support is long term in nature, or if the insurer is directly owned by the government, we may apply the rating methodology for government-related issuers when evaluating the credit profile of the insurer (Please see the Assigning Insurance Financial Strength and Instrument Ratings section below).[22]

Other Rating Considerations

Ratings may include additional factors that are not in the scorecard, usually because they may have a meaningful effect in differentiating credit quality, but only in some cases. Such factors include financial controls and the quality of financial reporting; the quality and experience of management; environmental and social considerations; exposure to uncertain licensing regimes; and possible government interference in some countries. Regulatory, litigation, liquidity, technology and reputational risk as well as changes to consumer and business spending patterns, competitor strategies and macroeconomic trends also affect ratings.

[22] A link to an index of our sector and cross-sector credit rating methodologies can be found in the "Moody's Related Publications" section.

Following are some examples of additional considerations that may be reflected in our ratings and that may cause ratings to be different from scorecard-indicated outcomes.

Special Rating Situations

In a few, very special – and typically adverse – situations, a single rating factor or sub-factor may be so important to a company's financial health and solvency, that it overrides all of the others, despite its nominal weighting in the scorecard. This would typically occur in highly adverse situations, where a company's solvency or liquidity is at stake. Examples of this would include the breach of local capital-solvency or risk-based capital thresholds that precede regulatory intervention, or concerns of a looming liquidity crisis – e.g., a material holding company debt maturity with a highly uncertain source of repayment.

If a rated entity has cliff-like rating triggers,[23] its susceptibility to events may be exacerbated.

Special Rating Situations often deal with information that is not necessarily captured by point-in-time ratios, or annual / quarterly regulatory or reporting requirements. For this reason, we may stress critical solvency ratios and liquidity needs to identify potentially severe pressure points, and the resultant scenario may be considered in an additional view of the scorecard.

Financial Institutions with Limited Financial History

Most rated insurers have many years of financial history and lengthy operating track records that generally act as the basis for our forward-looking credit analysis. Insurers with limited financial history may undergo rapid evolution initially, before developing readily distinguishable and stable operating characteristics. Financial institutions are highly confidence-sensitive. A demonstrable track record can be instrumental in building customer and market trust, which creates franchise value and supports the institution's performance during a down cycle.

The franchise value of start-up insurers is usually weak, and most tend to lack product depth, market share, operating experience as an institution (rather than as a collection of individuals) and a record of resilience through a full credit cycle. Their systems, policies and procedures tend to be less robust than those of established insurers.

For start-ups that lack a financial history of at least several years and in cases of a material transformation in an insurer's business, such that its financial history does not provide a good indication of future results (collectively, insurers with limited financial history), existing financial history provides less insight into the future credit profile. In these cases, our baseline projections may reflect more-conservative expectations than management's projections. In addition, we are likely to make downward adjustments to several factors in our scorecard in order to reflect the considerable uncertainty around our baseline expectations of future operations and financial profile. To the extent these risks and uncertainties are not fully captured in the scorecard, they may be reflected in an assigned IFSR that is lower than the scorecard-indicated outcome.

Insurers with limited financial history may benefit from external support. When material, we incorporate that support into our ratings. In assessing the level of expected support, we generally consider whether the company's status as a start-up could affect the willingness of the support provider to step in should support be needed. For a highly publicized start-up subsidiary of a parent with a solid credit profile, we may expect a high level of support. Certain parent companies and affiliates, conversely, could be less willing to provide support if the reputational and financial risks attached to failure of an early-stage business venture were

[23] Rating triggers are typically used in credit agreements covering funded bank loans and unfunded credit lines (providing back-stop liquidity) and in bond indentures and reinsurance contracts. Creditors often use rating triggers in an attempt to protect themselves in the event of credit deterioration. A rating trigger typically provides creditors with certain rights in the event that a borrower's credit ratings change to predetermined levels. These rights run the gamut from step-ups in loan pricing (not very risky) to events of default that would enable the creditor to "put" or accelerate the debt (very risky).

lower than for subsidiaries with long track records and entrenched businesses in their home markets. We generally expect that governmental support for start-ups, typically small players in the early years of operations that are not systemically important, to be low. Exceptions could include government-owned start-ups and start-up insurers of long-term strategic importance to government policy initiatives.

Financial Controls

We rely on the accuracy of audited financial statements to assign and monitor ratings in this sector. The quality of financial statements may be influenced by internal controls, including the proper tone at the top, centralized operations, and consistency in accounting policies and procedures. Auditors' comments in financial reports and unusual financial statement restatements or delays in regulatory filings may indicate weaknesses in internal controls.

Additional Metrics

The metrics included in the scorecard are those that are generally most important in assigning ratings to companies in this industry; however, we may use additional metrics to inform our analysis of specific companies. These additional metrics may be important to our forward view of metrics that are in the scorecard or other rating factors.

Environmental Considerations

Air, water and soil pollution as well as natural disasters, including pandemics, could all lead to increasing healthcare claims and costs over a number of years. The short-term nature of health insurance policies and insurers' typical ability to re-price policies annually, however, is a substantial mitigant for the risk, although we note that environmental diseases can be progressive and degenerative. The financial impact of a pandemic event on health insurers would depend on its severity.

Social Issues

For issuers in this sector, we also consider social issues that could materially affect the likelihood of default and severity of loss, for example through adverse impacts on business reputation, brand strength and employee relations.

Assigning Insurance Financial Strength and Instrument Ratings

IFSRs are opinions of the ability of insurance companies to pay punctually senior policyholder obligations and claims and also reflect the expected financial loss suffered in the event of default.[24] IFSRs are assigned to legal entities.

In contrast, our long-term debt and preferred stock ratings are assigned to specific instruments issued by either a holding or operating company. The relationship between IFSRs and instrument ratings depends on the legal and regulatory framework in a particular jurisdiction and the relative standing of policyholders and instrument holders in the event of insolvency, bankruptcy, reorganization or liquidation of the entity. The relationship between the ratings for these different classes of creditors is discussed in our cross-sector methodology providing guidance on assigning ratings to instruments issued by insurers. For issuers that benefit from rating uplift from ownership or other support from the US federal government, we may assign a Baseline Credit Assessment.[25]

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[24] Please refer to *Rating Symbols and Definitions*; a link can be found in the "Moody's Related Publications" section.

[25] For an explanation of the Baseline Credit Assessment, please refer to *Rating Symbols and Definitions* and to our cross-sector methodology for government-related issuers. A link to an index of our sector and cross-sector methodologies and a link to *Rating Symbols and Definitions* can be found in the "Moody's Related Publications" section.

Corporate Family Ratings

Corporate family ratings (CFRs) are generally employed for speculative-grade issuers. As applied to a health insurer, a CFR reflects only financial debt obligations and does not consider policyholder or other liabilities. A CFR does not reference an obligation or class of debt and thus does not reflect priority of claim.

Assumptions

Key rating assumptions that apply in this sector include our view that sovereign credit risk is strongly correlated with that of other domestic issuers, that legal priority of claim affects average recovery on different classes of debt sufficiently to generally warrant differences in ratings for different debt classes of the same issuer, and the assumption that access to liquidity is a strong driver of credit risk.

Our forward-looking opinions are based on assumptions that may prove, in hindsight, to have been incorrect. Reasons for this could include unanticipated changes in any of the following: the macroeconomic environment, general financial market conditions, industry competition, disruptive technology, or regulatory and legal actions.

Limitations

In the preceding sections, we have discussed the scorecard factors, many of the other rating considerations that may be important in assigning ratings, and certain key assumptions. In this section, we discuss limitations that pertain to the scorecard and to the overall rating methodology.

Limitations of the Scorecard

There are various reasons why scorecard-indicated outcomes may not map closely to actual ratings.

The scorecard in this rating methodology is a relatively simple tool focused on indicators for relative credit strength. Credit loss and recovery considerations, which are typically more important as an issuer gets closer to default, may not be fully captured in the scorecard. The scorecard is also limited by its upper and lower bounds, causing scorecard-indicated outcomes to be less likely to align with ratings for issuers at the upper and lower ends of the rating scale.

The weights for each sub-factor and factor in the scorecard represent an approximation of their importance for rating decisions across the sector, but the actual importance of a particular factor may vary substantially based on an individual company's circumstances.

Factors that are outside the scorecard, including those discussed above in the "Other Rating Considerations" section, may be important for ratings, and their relative importance may also vary from company to company. In addition, certain broad methodological considerations described in one or more cross-sector rating methodologies may be relevant to ratings in this sector.[26] Examples of such considerations include the following: how sovereign credit quality affects non-sovereign issuers, the assessment of credit support from other entities, the relative ranking of different classes of debt and hybrid securities, and the assignment of short-term ratings.

[26] A link to an index of our sector and cross-sector methodologies can be found in the "Moody's Related Publications" section.

We may use the scorecard over various historical or forward-looking time periods. Furthermore, in our ratings we often incorporate directional views of risks and mitigants in a qualitative way.

General Limitations of the Methodology

This methodology document does not include an exhaustive description of all factors that we may consider in assigning ratings in this sector. Companies in the sector may face new risks or new combinations of risks, and they may develop new strategies to mitigate risk. We seek to incorporate all material credit considerations in ratings and to take the most forward-looking perspective that visibility into these risks and mitigants permits.

Ratings reflect our expectations for an issuer's future performance; however, as the forward horizon lengthens, uncertainty increases and the utility of precise estimates, as scorecard inputs or in other rating considerations, typically diminishes. In any case, predicting the future is subject to substantial uncertainty.

Appendix 1: Using the Scorecard

This appendix describes how we use the scorecard to arrive at an alphanumeric scorecard-indicated outcome.

Alphanumeric categories from Aaa to C are mapped to numeric values of 1 through 21, as follows:

Alphanumeric Categories	Numeric Value
Aaa	1
Aa1	2
Aa2	3
Aa3	4
A1	5
A2	6
A3	7
Baa1	8
Baa2	9
Baa3	10
Ba1	11
Ba2	12
Ba3	13
B1	14
B2	15
B3	16
Caa1	17
Caa2	18
Caa3	19
Ca	20
C	21

Source: Moody's Investors Service

Qualitative sub-factors are scored on a broad alpha scale based on the scoring descriptions (with an equivalent numeric core based on the midpoint of that alpha category), and these sub-factor scores are combined to produce an alphanumeric factor score. A numeric value for each score is mapped from the table above. A numeric value between 1 and 18 is established for each financial metric through linear interpolation. Taking for example, the two metrics included in the Capital Adequacy and Quality factor, a company with an RBC of 350% of CAL would map to a numeric score of 3, and fall within the Aa range for that metric. In addition, the same company with goodwill as a percentage of equity of 33% would map to a numeric score of 6.9, and fall within the A range. Based on the table, the weighted average score for the Capital Adequacy and Quality factor would be 4.0, which maps to a rating of Aa3 for this factor. The weightings per the table below are then applied to arrive at an overall numeric value for each scorecard factor. The numeric value by scorecard factor is mapped back to the Aaa through C rating scale shown above.

Each scorecard factor is assessed and then weighted according to its importance within our rating approach for the industry.

The Operating Environment would affect US health insurers only to the extent that the combined score for the Operating Environment components detailed below were Baa or below with respect to the US government.

The three country-specific components of the Operating Environment score are based on macro-level indicators from our sovereign rating methodology[27] and country research:

Economic Strength: We use *Moody's published factor score for the sovereign's Economic Strength. Scoring for this factor is expressed on an alphanumeric scale.*

Institutions and Governance Strength: We use *Moody's published factor score for a sovereign's Institutions and Governance Strength.* Scoring for this factor is expressed on an alphanumeric scale.

Susceptibility to Event Risk: We use *Moody's published factor score for a sovereign's Susceptibility to Event Risk.* Scoring for this factor is expressed on a broad alpha scale.

The Operating Environment score, to the extent it corresponds to a broad alpha category of Baa or below, is accorded a weight as shown in the following table. These weights apply regardless of the modifier (1, 2 or 3). The Operating Environment's weight is variable and increases toward the lower end of the rating scale for scores at the Baa level or below. Importantly, the Operating Environment component is reflected in an insurer's credit profile only to the extent that it exerts a downward influence.

	Aaa	Aa	A	Baa	Ba	B	Caa
Operating Environment Weights	n/a	n/a	n/a	20%	40%	60%	80%

Source: Moody's Investors Service

Once the weighted average result (based on the company-specific business and financial factors) is calculated, it is multiplied by one minus the Operating Environment weight, and then added to the result of the Operating Environment weight multiplied by the numeric value associated with the Operating Environment component. Using those weightings, a weighted average is calculated, which is then mapped back to the Aaa through C rating scale shown in the first table of this appendix. The result is oriented to the IFSR in the local or foreign currency. This scorecard-indicted outcome may be different from the final rating because it does not consider the analyst's input to the individual factors, or management and governance, special rating situations, and accounting policy and disclosures, as well as implicit/explicit support.

The weightings shown below are our assessment of the typical relative importance of the company-specific factors and sub-factors, and of the Operating Environment for health insurers, but in assigning ratings, individual factors or sub-factors may have greater or lesser weight, depending on the specific characteristics of the insurer. The metrics are primarily calculated based on public information. Non-public financial data or public financial data modified due to accounting and reporting formats in other than US GAAP or IFRS may also be used.

[27] For more details on our sovereign rating methodology, a link to an index of our sector and cross-sector credit rating methodologies can be found in the "Moody's Related Publications" section.

	Factor Weighting	Metric Weighting (relative to factor weights)
BUSINESS PROFILE		
Factor 1: Market Position and Brand	15%	
Total Medical Membership (excl. Standalone PDP ('000)		25%
Geographic Diversity and Branding		35%
Organic Membership Growth Rate (3-year weighted average)		40%
Factor 2: Product Risk and Concentration	20%	
Percent of Full Risk Membership (%)		40%
Premium Concentration		30%
Product Diversity		30%
FINANCIAL PROFILE		
Factor 3: Capital Adequacy & Quality	25%	
Consolidated NAIC Risk-Based Capital Ratio (CAL)		75%
Goodwill and Intangible Assets as a % of Shareholders' Equity		25%
FACTOR 4: Profitability	25%	
EBITDA Margin (3-year weighted average)		50%
Earnings Concentration (3-year average)		25%
Standard Deviation of Medical loss Ratio (5 years)		25%
Factor 5: Financial Flexibility	15%	
Financial Leverage Debt to Capital		25%
Financial Leverage Debt to EBITDA		25%
EBITDA coverage (3-year weighted average)		25%
Cash Flow Interest Coverage (3-year weighted average)*		25%
OPERATING ENVIRONMENT		Variable (see above)

Source: Moody's Investors Service

Differences between the scorecard-indicated outcome and the standalone credit profile may exist due to analytic judgment regarding the weighting of the factors, interpretation of the metrics, the importance of other analytic considerations, or other unique fundamentals of the company not appropriately captured or weighted by the scorecard.

Appendix 2: US Health Insurance Industry Scorecard

Business Profile

	Weight	Aaa	Aa	A	Baa	Ba	B	Caa and Lower
FACTOR 1: Market Position and Brand - 15%								
Total Medical Membership (excl. Standalone PDP (000)	25%	>25,000	15,000-25,000	5,000-15,000	1,000-5,000	250-1,000	<250	N/A
Geographic Diversity and Branding	35%	Large national plan with strong national brand name recognition and leading market share in majority of states	Large national plan with strong brand name recognition and within top 5 market share in majority of states	Large regional company with strong recognized brand name	Multi-state plan with strong brand recognition or multi-state Blue Cross Blue Shield plan	Multi-state plan with each plan operating or branded separately or single state Blue Cross Blue Shield plan	Single state plan with limited operating areas within state	N/A
Organic Membership Growth (3 yr wtd avg)	40%	>5%	3%-5%	1.5%-3%	0%-1.5%	0% - (5%)	(5%) - (10%)	<(10%)
FACTOR 2: Product Risk and Concentration - 20%								
Full Risk Membership %	40%	<20%	20%-40%	40%-60%	60%-80%	80%-100%	100%	N/A
Premium Concentration	30%	<2%	2%-8%	8%-15%	15%-25%	25%-35%	>35%	N/A
Product Diversity	30%	Company has a well-diversified product line with a wide array of health insurance products, a strong supplemental and group benefits product segment, and additional unregulated businesses	Company has a well-diversified product line with multiple health insurance products, and a strong well-diversified supplemental and group benefit product segment	Company offers a well-diversified product line with multiple health insurance products and additional ancillary product offerings	Company offers a variety of health insurance products and a limited number of supplemental products	Company offers a limited variety of health insurance products and may also offer a small number of supplemental products	Company essentially operates in one health insurance segment with a limited number of product offerings	N/A

Financial Profile

	Weight	Aaa	Aa	A	Baa	Ba	B	Caa and Lower
FACTOR 3: Capital Adequacy & Quality - 25%								
Consolidated NAIC Risk-Based Capital Ratio (CAL)	75%	>400%	400%-300%	300%-200%	200%-150%	150%-100%	100% - 50%	<50%
Goodwill and intangibles as % of Shareholders' Equity	25%	<15%	15%-25%	25%-35%	35%-50%	50%-80%	80%-120%	>120%
FACTOR 4: Profitability - 25%								
EBITDA Margin (3 yr. wtd avg)	50%	>10%	10% - 8%	8% - 5%	5% - 3%	3% -1%	1% - 0%	<0%
Earnings Concentration (3 yr. avg)	25%	0%	0% - 9%	9% - 20%	20% - 32%	32% - 44%	>44%	N/A
Standard Deviation of Medical Loss Ratio (5 yr. stdev)	25%	<0.25%	0.25%-1.0%	1.0%-1.75%	1.75%-2.5%	2.5%-3.25%	3.25% - 5%	>5%
FACTOR 5: Financial Flexibility - 15%								
Financial Leverage - Debt to Capital	25%	<20%	20%-30%	30%-40%	40%-50%	50%-65%	65% - 80%	>80%
Financial Leverage - Debt to EBITDA	25%	<0.5x	0.5x-1.0 x	1.0x-1.5x	1.5x-2.5x	2.5x-3.5x	3.5x - 5x	>5x
EBITDA Coverage (3 yr wtd avg)	25%	>16x	16x-13x	13x-9x	9x-5x	5x-3x	3x-1x	<1x
Cash Flow Interest Coverage (3 yr wtd avg)	25%	>10x	10x-7x	7x-5x	5x-3x	3x-1x	1x-0.5x	<0.5x

Source: Moody's Investors Service

Appendix 3: Incorporating Stress Testing in Our Analysis — The Pre-defined Stress Scenario

In order to capture the risk to an insurer's credit profile posed by potentially volatile economic and financial conditions, as well as the possibility of catastrophic loss events, we typically consider stress scenarios as a fundamental part of our rating analysis. This appendix explains our approach and, more specifically, our pre-defined stress scenarios.

Combining results of a pre-defined stress scenario with an expected case allows us to gauge the impact of stress on capital of an individual insurer and relative to a group of insurers. Our stress scenario is generally focused on short- to medium-term shock losses to earnings/capital and not on every risk faced by insurers. We also perform supplemental insurer-specific stress tests when an insurer's business profile does not lend itself well to the pre-defined stress scenario.

Our ratings reflect our assessment of the insurer's relative credit profile in a forward-looking expected scenario, but also considers the volatility of a company's credit profile implied by the results of our stress scenario. We generally expect that an insurer can withstand moderate stress while maintaining a credit profile consistent with its assigned rating. In cases where a more severe stress scenario indicates that the company's credit profile would deteriorate dramatically (e.g., by the equivalent of three or more rating notches), we would in most cases assign a rating lower than indicated by our analysis of the expected case scenario.

Our Stress Test Scenario Analysis Focuses on Common Near-to-Medium-Term Risks

We apply a specific stress scenario that is generally focused on short- to medium-term shock losses to earnings/capital and not on every risk faced by insurers (e.g., not on particularly long-term risks, such as prolonged low interest rates). While we recognize the lack of complete coverage of all risks, we typically assess shock events that offer the insurer limited time to correct for and manage through over a short time horizon. We consider long-term risks faced by insurers and we may additionally undertake insurer-specific stress analysis when an insurer's business profile does not lend itself well to the pre-defined stress test. However, we do not typically consider stress scenarios where the outcome is subject to meaningful variability that is contingent on management's future actions.

Our stress scenario analysis, when combined with an expected case, allows us to gauge the relative impact of stress on the capital and credit profile of an insurer compared to the performance of a group of insurers.

Key Risks Subject to the Stress Scenarios

In the table below, we identify the key "shock" risks we assess. In addition, we summarize the stress scenario we postulate for each key risk. Rather than trying to create stress scenarios that mimic specific historical events, we develop scenarios by specifying defined stresses to key financial attributes. This uniform application of stress analysis facilitates peer comparison.

Although we attribute no specific event probability to our stress scenario,[28] we consider each scenario to be severe.

[28] The information necessary to complete the stress test is sourced from both public and private sources. When full information is not available, estimates may be used. In addition, adjustments to information may be warranted upon review.

Key Risk Area	Risk	Stress Scenario
Investments	The risk that investments perform worse than expected	See table below
Catastrophes	The risk of significant underwriting losses arising from a major natural catastrophe like a hurricane or earthquake or a pandemic event	Increase in mortality by 1.5 deaths per thousand
Claim frequency	The risk of unfavorable spike in claim costs	500 basis-point increase in the medical loss ratio for national companies and 800 basis-point increase for regionally concentrated insurers

Source: Moody's Investors Service

Of note, our investment stress analysis is based on economic loss, instead of market value, because of the industry's strong liquidity profile and the nature of its (mostly) non-puttable liabilities (or puttable, with a meaningful penalty to the policyholder in terms of amount reimbursed or coverage forfeited). That said, we generally supplement our economic-loss-based investment scenarios analysis by considering the sensitivity of those results to actual market value losses in times of severe market dislocation. In certain instances, we may use the greater of actual market value losses or economic losses for our analysis of investment stress.

Investment Economic Loss Percentages

Investment Category	Stress Scenario Loss Percentages
Cash	0%
Fixed maturities[29]	
Aaa/Aa/A	0.5%
Baa	3.5%
Ba	11.7%
B	32.5%
Caa and below	50%
Mortgage/real estate	
Commercial mortgage loans	**3.5%**
Other mortgage loans	3.5%
Real estate investments	20%
All other	
Non-redeemable preferred securities	5%
Other equity securities	25%
Alternatives	25%
Derivatives	10%
All Other (including corporate and other loans)	10%

Source: Moody's Investors Service

29 Our fixed income factors are derived from the two-year expected loss after notching down from current rating levels. We adjust for material impairments taken for the lowest-rated instruments.

Adding Up Stress for the Stress Test Scenario

Once stress losses from all sources are derived, we assess the impact on capital adequacy. While we recognize the likelihood of each risk occurring simultaneously is low, historical results have shown cycles in insured losses and the potential for confluent events to affect investment returns. For this scenario analysis, each risk is summed without the benefit of diversification to create a severe stress scenario.[30] The diversification benefit is less relevant given our objective to look for those insurers whose results deviate materially from the average.

In interpreting the results of the stress test on a subsidiary of a larger group, we consider the extent to which unencumbered excess[31] cash available at an unregulated holding company or affiliate would likely be made available to the operating company(ies)[32] as a capital contribution, if need be. Our analysis of excess cash considers the ongoing permanence of funds maintained outside of the operating company that is above and beyond any amount that would lead to a narrowing of standard debt notching practices for the holding company.

Below is our pre-defined stress scenario template for a US health insurance company. In this scenario, investment losses are based on idealized expected losses. When the actual market value of investment losses (calculated as the unrealized loss excluded from opening equity) exceeds severe stress economic investment loss, we may replace the economic loss with the market value of investment loss.

Pre-defined Stress Scenario - Equity Impact Analysis
Beginning Reported Surplus or Equity
Exclude Unrealized Gains or Losses on Investments
Adjusted Beginning Surplus or Equity
Equity Roll Forward:
Recurring Operating Income Before Taxes
Less Stress Losses:
Catastrophe Losses
Investment Losses
Claim Frequency
Total: Stress Losses
EBIT
Tax Expense (Benefit)
Net Income
Preferred Dividends
Net Income to Common Shares
Change in Surplus or Equity
% Change in Adjusted Beginning Surplus or Equity Due to Stress Losses

Source: Moody's Investors Service

30 We do consider losses after tax benefits, although we reduce the tax benefit from local statutory rates to reflect recoverability risk.

31 E.g., after interest expense and other debt service coverage needs as well as expected shareholder dividend needs.

32 Scenario testing is performed on an analytic unit basis, which may include more than one legal operating company.

How Ratings Reflect the Stress Scenarios

We typically prepare an alternate view of the scorecard that shows the pre-defined stress scenario analysis. Each insurance scorecard includes an adjusted score for each scorecard factor. We combine the adjusted factor scores to arrive at the scorecard-indicated outcome.[33]

While a company's expected performance is already reflected in the adjusted scores, a separate set of adjusted scores are typically prepared for our pre-defined stress scenario (which is severe). The adjusted scores for this severe scenario are generally lower than our expected case adjusted scores. Lower adjusted scores are typical for several financial profile key factors, such as asset quality, capital adequacy, profitability and financial flexibility. In addition, some Business Profile scores may be lower under the pre-defined stress scenario. In many cases, the magnitude of the difference is directly influenced by the relative results of our stress testing.

In cases where the pre-defined stress scenario indicates that the company's credit profile would deteriorate dramatically (e.g., by the equivalent of three or more rating notches), the assigned rating would typically be lower than the expected case scorecard-indicated outcome, in recognition of the potential downside risk to the insurer's credit profile if the stress case were to occur over the medium term.

[33] In certain instances, assigned ratings may reflect uplift where warranted from support from a parent or affiliate. Our scenario testing is performed on a standalone basis before consideration of support.

Moody's Related Publications

Credit ratings are primarily determined by sector credit rating methodologies. Certain broad methodological considerations (described in one or more cross-sector rating methodologies) may also be relevant to the determination of credit ratings of issuers and instruments. An index of sector and cross-sector credit rating methodologies can be found here.

For data summarizing the historical robustness and predictive power of credit ratings, please click here.

For further information, please refer to *Rating Symbols and Definitions*, which is available here.

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Authors
Dean Ungar
Ellen Fagin
Pano Karambelas

Senior Production Associate
David Dombrovskis

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