

Article Title: ARCHIVE | Criteria | Insurance | General: Advance Notice Of Proposed Criteria Change: Insurance Companies Data: (EDITOR'S NOTE: — Standard & Poor's published the request for comment titled, "Insurers: Rating Methodology," on July 9, 2012. This advance notice of proposed criteria change is no longer current.) Standard & Poor's Ratings Services is reviewing the assumptions and methodologies it uses to assign global-scale ratings to insurers (excluding bond insurers and mortgage insurers). Our intention is to enhance the transparency of our methodology and the comparability of ratings on insurers globally and with those in other sectors (see "Principles of Credit Ratings," published on Feb. 16, 2011, on RatingsDirect on the Global Credit Portal). The review may result in revisions to some of our assumptions and methodologies, leading to adjustments to some insurance company ratings. We expect the significant majority of ratings to remain unchanged or move by no more than one notch. Changes to our ratings on any particular insurer will nevertheless depend on the criteria that we adopt after the review.

**Summary Of The Proposal** The proposed framework supports forward-looking analysis, incorporating existing elements of our rating analysis with some additional credit elements, most notably the introduction of an Insurance Industry Country Risk Assessment (IICRA; see chart). We expect that the methodology will provide guidance about the scoring of each element of a newly introduced "business risk profile" and a "financial risk profile" for each insurer. The combination of the two would typically anchor the final rating. Furthermore, the methodology would establish how we apply various modifiers and caps and how, together with the anchor, these determine the final rating. We anticipate applying the methodology's same key elements in analyzing an insurance group or in the stand-alone analysis of a group member.

**Insurance Industry Country Risk Assessment** We would generally determine the proposed IICRA, which addresses the risks that insurers typically face operating in specific industries and countries, at a country or regional level according to the following subfactors: Economic risk. Political risk. Banking industry risk. Payment culture and the rule of law. Return on total capital. Product risk. Barriers to entry. Insurance penetration trends. The institutional framework. The IICRA would become a key element of the business risk profile, serving a similar function to the Banking Industry Country Risk Assessment (BICRA) in assessing sector and country risks. However, we expect the IICRA to have less influence on insurance ratings than the BICRA has on bank ratings stemming from our view that systemic factors play a smaller role in the creditworthiness of insurers than for banks. The framework's main analytical elements

**Business risk profile.** Insurance Industry Country Risk Assessment (IICRA). Competitive position: Assesses an insurer's competitive advantages and disadvantages based on, notably, brand differentiation, market share, operating performance, and diversification. Financial risk profile. Capital and earnings: Measures with a forward-looking perspective an insurer's ability to absorb losses, considering current capital resources as well as its ability to build capital through net retained earnings. We do not plan to change our existing capital framework as part of the proposal. Risk position: Considers material risks that our capital adequacy model does not incorporate, as well as risks that could lead to significant volatility in an insurer's capital and financial ratios. Financial flexibility: Assesses the balance between an insurer's sources and uses of external capital and liquidity over one to two years using quantitative and qualitative measures. Modifiers and caps. Enterprise risk management (ERM) and management and governance: Combined, these potentially modify the anchor. Liquidity, fixed-charge coverage, and sovereign rating tests: Apply cumulatively and may limit a rating. Group or government support: Describes potential enhancement or capping of ratings on subsidiaries of insurance groups, or on insurers owned by governments. We expect the group analysis to be closely in line with the criteria for financial institutions ("Group Rating Methodology And Assumptions," published on Nov. 9, 2011). We do not expect changes to our criteria for government-related entities ("Rating Government-Related Entities: Methodology And Assumptions," published on Dec. 9, 2010). Before finalizing any changes to the insurance rating criteria, we will look for feedback from all interested market participants by means of a Request for Comment (RfC). We expect to publish the RfC detailing our proposed changes within a few weeks. Once the comment period closes, we expect to announce the timing for publication of our revised criteria, which will likely be late 2012 or early 2013.

**Related Research And Criteria** Principles of Credit Ratings, Feb. 16, 2011. Criteria | Insurance | General: Interactive Ratings Methodology, April 22, 2009 These criteria represent the specific application of fundamental principles that define credit risk and ratings opinions. Their use

is determined by issuer- or issue-specific attributes as well as Standard & Poor's Ratings Services' assessment of the credit and, if applicable, structural risks for a given issuer or issue rating. Methodology and assumptions may change from time to time as a result of market and economic conditions, issuer- or issue-specific factors, or new empirical evidence that would affect our credit judgment. Also watch the related CreditMatters TV segment titled, "Standard & Poor's Proposed Insurance Criteria Stresses Increased Transparency And Comparability," dated June 4, 2012.