

Article Title: ARCHIVE | Criteria | Insurance | Fundamentals: Assumptions: 2012 Interest Rate Scenarios For U.S. Insurance Risk-Based Capital Model Data: (EDITOR'S NOTE: — This article has been superseded by "Assumptions: 2013 Interest Rate Scenarios For U.S. Insurance Risk-Based Capital Model," published Feb. 20, 2013.)

1. Standard & Poor's Ratings Services is refining and adapting its assumptions for the interest rate scenarios for its U.S. insurance risk-based capital model. We are publishing this article to help market participants better understand our approach to evaluating interest rate scenarios for the U.S. insurance risk-based capital model. This article is related to our criteria articles, "Methodology For Calculating The Convexity Risk In U.S. Insurance Risk-Based Capital Model," published April 27, 2011, on RatingsDirect; "Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model," published June 7, 2010; and "Principles Of Credit Ratings," published Feb. 16, 2011.

SCOPE OF THE CRITERIA 2. The revisions apply only to our ratings on U.S. insurance companies.

3. We will use the updated interest rate scenarios to derive convexity risk charges related to options embedded in residential mortgage-backed securities (RMBS), callable corporate bonds, and asset-backed securities collateralized by home equity loans.

SUMMARY OF THE CRITERIA 4. We are updating our interest rate scenarios used in convexity modeling for our U.S. insurance risk-based capital model. These criteria provide updated interest-rate shifts modeled as of year-end 2011. We expect to update these interest-rate shift scenarios annually. The methodology for determining our scenarios is described in "Methodology For Calculating The Convexity Risk In U.S. Insurance Risk-Based Capital Model," published April, 27, 2011.

IMPACT ON OUTSTANDING RATINGS 5. We do not expect to initiate any rating actions based on these revised criteria.

EFFECTIVE DATE AND TRANSITION 6. These criteria are effective immediately.

ASSUMPTIONS 7. We use the interest rate scenarios in our risk-based capital model. This capital model is our primary measure of insurer capital adequacy. The model applies different basis-point shifts based on the confidence levels associated with the empirically observed probability of default for the targeted credit rating on the insurance company we are analyzing.

8. We are applying the 2012 interest-rate scenarios (shifts; see table) to determine capital charges for convexity risk.

Interest Rate Shift Scenarios	SHIFT (BPS)	RATING	STRESS EQUIVALENT
265	AAA	240	AA
225	A	200	BBB
185	BBB	150	100
100	50	0	(50)
(50)	(100)	(155)	BBB
(200)	A	(215)	AA
(240)	AAA		

9. Our interest-rate shift scenarios are based on historical movements of the 10-year Treasury note, which we consider a driver of mortgage rates and the expected prepayments on RMBS. Based on the remaining term to maturity of callable bonds across the insurance industry, we also consider it a significant driver of call features.

10. 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.