

Criteria Essentials - Insurance Rating Framework

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 insurance rating criteria



If questions arise, please find contacts at the bottom of the page using the link above

Key Rating Drivers (KRDs)

- 9 quantitative and qualitative KRDs
- Each is scored and assigned an indicated forward trend, as well as a weighting
- The weighting of each KRD is determined by the rating committee

Qualitative KRDs	Most Common Weights
1. Industry Profile and Operating Environment (IPOE)	Moderate
2. Company Profile	Higher
Quantitative KRDs	
3. Capitalisation & Leverage	Higher
4. Debt Service Capabilities and Financial Flexibility	Lower
5. Financial Performance and Earnings	Higher
6. Investment and Asset Risk **	Lower/Higher*
7. Asset/Liability and Liquidity Management **	Lower/Higher*
8. Reserve Adequacy **	Moderate
9. Reinsurance, Risk Mitigation and Catastrophe Management **	Moderate

Key Rating Drivers

Ownership and Group Ratings

+ Other Criteria Elements

Insurer Financial Strength Rating (IFS) (anchor rating)

Represents the ability of the insurer to pay claim obligations in a full and timely manner

Issuer Default Rating (IDR) (see next page)

Represents an entity's relative vulnerability to default on financial obligations
 The IDR does not consider recovery

Debt/Hybrid Security Ratings (see next page)

Consider the relative vulnerability to default and recovery given default

Ownership

- Can be Neutral, Positive or Negative
- Rating adjusted upwards or downwards if Positive or Negative

Group Ratings Methodology

Willingness to Provide Support

- Strategic importance
- Support agreements

IFS Rating of Group Member

Potential uplift influenced by the credit profile of the group and the group member

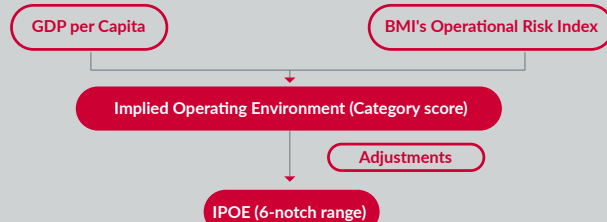
Ability to Provide Support

- Financial strength of the group
- External barriers (eg regulatory)

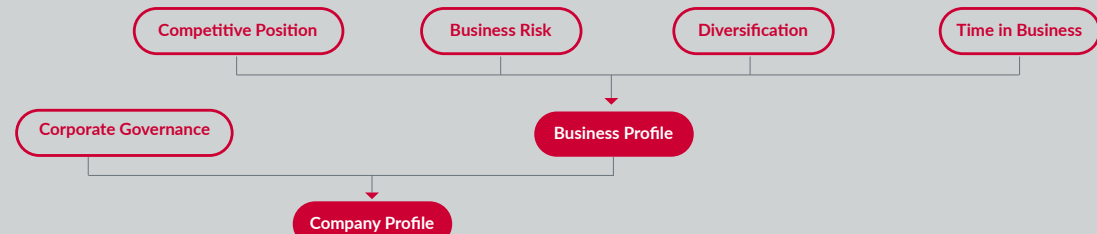
* Higher weighting if weak score ** Driver does not fully apply or is modestly redefined for some sectors

IFS's Qualitative KRDs

1. Industry Profile and Operating Environment



2. Company Profile



IFS's Quantitative KRDs (Examples of Key Components)

3. Capitalisation & Leverage

- [Fitch's risk-adjusted Capital Adequacy Models \(Prism\)](#)
- Financial Leverage Ratios
- Regulatory Capital Ratios
- Total Financing and Commitments

4. Debt Service Capabilities & Financial Flexibility

- Fixed-Charge Coverage
- Financial Flexibility

5. Financial Performance & Earnings

- Return on Equity
- Combined and Operating Ratios (Non-Life)
- Pretax Return on Assets (Life)

6. Investment & Asset Risk

- Risky Assets Ratio
- Sovereign Investment Concentration Risk

7. Asset/Liability & Liquidity Management

- Liquid Asset Ratio
- Duration Gap (Life)

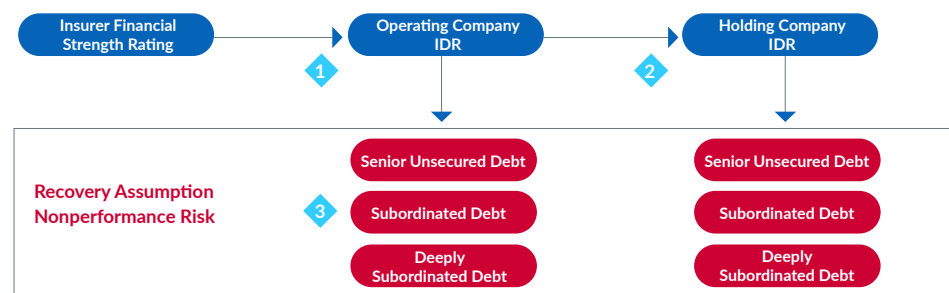
8. Reserve Adequacy

- Net Loss Reserves /Incurred Losses
- Change in Ratio of Reserves/ Earned Premium
- Reserve Development / Prior-year Equity

9. Reinsurance, Risk Mitigation & Catastrophe Management

- Reinsurance Recoverables /Capital
- Net Annual Aggregate Catastrophe Losses / Capital

Criteria Essentials – Issuer Default Ratings (IDRs), HoldCo Notching and Obligation Ratings



3 Debt Obligation Notching (from an entity IDR)

Recovery Assumption

- Notching based on expected recoveries in the event of a default
- Fitch typically uses general recovery assumptions for different classes and types of obligations
- Seniority plays a role in recovery assumptions

Nonperformance Risk

- Notching based on the risk hybrids (subordinated & deeply subordinated debt) become nonperforming prior to default
- It can be minimal, moderate or high, depending on the effectiveness of the instrument's features to protect an insurer's capital in a going concern scenario

Regulatory Environment Assessment

- Group Solvency:** Capital requirements are outlined at both the operating and group holdings levels
- Ring Fencing:** Insurance operating companies are isolated from the risks of other group members, including the holding company
- Other:** Solvency framework is limited in scope and thus considered ineffective

1 IFS → Operating Company IDR

Recovery Assumptions in the IFS

- IFS rating includes recovery assumptions. Opco IDR doesn't.

Operating Company IDR Notching

Regulatory Environment	IFS Recovery Assumption	IDR Relative to IFS
Group Solvency/Ring Fencing	Good ⁱ	-1
Other	Below Good ⁱⁱ	From 0 to +2

i) Good is the typical assumption in most jurisdictions

ii) Recovery assumption based on analytical judgement

2 Operating Company IDR → Holding Company IDR

Holding Company IDR Notching (from Operating Company IDR)

Regulatory Environment		
	Ring Fencing	Group Solvency ^{iv} or Other
Investment Grade ⁱⁱⁱ	-1	0
Non-Investment Grade	-2	-1

iii) Based on operating company IDR.

iv) For global groups, if 30% or more of earnings/ capital may be restricted at the same time, ring fencing may be employed.

Illustrative Notching ⁱ

Regulatory Environment	Group Solvency:				Ring Fencing:	
	EMEA / APAC		Bermuda ⁱⁱ		U.S.	
Insurer Financial Strength Rating	A+		A+		A+	
Note: Hypothetical ratings for company with same 'A+' IFS rating in different jurisdictions. (i) The notching shown is illustrative only, assuming a typical insurer and for standard instruments. Specific notching may differ. (ii) If 30% or more of earnings or capital may be restricted at the same time, ring fencing IDR notching may be employed.						
Operating Company Debt	Rating	vs Opco IDR	Rating	vs Opco IDR	Rating	vs Opco IDR
Funding Agreement-backed Notes	—		—		A+	(+1)
Opco Issuer Default Rating	A		A		A	
Senior Unsecured Debt	A	—	A	—	A	—
Subordinated Debt (Minimal Nonperformance Risk)	A- e.g. S2 Tier 3	(-1)			A- e.g. Surplus note	(-1)
Subordinated Debt (Moderate Nonperformance Risk)	BBB+ e.g. S2 Tier 2	(-2)				
Subordinated Debt (Moderate Nonperformance Risk)	BBB e.g. S2 RT 1	(-3) (additional notching due to lower recovery assumptions)				
Holding Company Debt	Rating	vs Holdco IDR	Rating	vs Holdco IDR	Rating	vs Holdco IDR
Holdco Issuer Default Rating	A		A		A-	
Senior Unsecured Debt	A-	(-1)	A-	(-1)	BBB+	(-1)
Subordinated Debt (Minimal Nonperformance Risk)	BBB+ e.g. S2 Tier 3	(-2)	BBB+	(-2) e.g. Preferred	BBB-	(-3)
Subordinated Debt (Moderate Nonperformance Risk)	BBB e.g. S2 Tier 2 / RT1	(-3)	BBB e.g. Preferred with mandatory deferrals	(-3)	BB+	(-4)