保險評等方法

主要標準

範圍

本報告規定了惠譽於全球保險及再保險業中授與新的及監控下國際及本國保險公司財務實力（IFS）評等、發行人違約評等（IDR）和債務/混合證券評等之方法。這些評等包括非人壽（即財產／意外或一般險），人壽/年金，意外／健康/管理式醫療險，財務保證，抵押和回教保險等部門的評等。

主要評等驅動因素

本報告取代先前 2016 年 5 月 17 日之保險評等方法 。

IFS 評等的起點／錨點：IFS 評等係為評等起點，並作為其他評等的錨點。IFS 評等的主要評等驅動因素，乃是根據這些標準所定義的關鍵信用因素，對營運中的（再）保險公司的表現進行評估。

主要信用因素／權重：主要信用因素（請參閱第 4 頁）的評估，包括對財務比率和其他定量因素的覆核，以及各種定性考量。主要信用因素包括對評等分析一般範圍的原則及具體準則作出定義。各因素的表現方式亦與同業相較以作為評估。評等委員會在最終評等中，採用主觀判斷來衡量各種主要信用因素的權重。

前瞻性觀點：儘管評等時絕大部分是涉及對歷史資訊的覆核，但進行確定時，最終考量還是前瞻性的觀點。主要的前瞻性驅動因素通常為自各適用之主要信用因素個別辨識出來的趨勢／前景。亦可使用預測、壓力測試或敏感性分析，通常都是在經濟條件有壓力，可能會影響關鍵信用因素的時候。

集團方法：在為某保險集團的核心成員建立 IFS 評等後，應使用評等標準來判斷其他集團成員的評等水準是否適當。這些標準的驅動因素包括該集團成員在策略上的重要性；使用支持協議（若有的話）；以及核心成員能提供其支援的能力，包括可能存在的限制性監管或其他障礙。

評等級距：分配給保險控股公司及各種債務或混合證券債務的評等，係透過評等級距的標準來建立。這些標準的主要驅動因素係保險監管制度的特性；對個別公司違約風險認知上的差異；以債務評等而言，係對某特定違約損失的一般假設（在較低評等水準情況下，使用定作的回收率分析）。以混合證券而言，評等級距亦受不履約風險影響這種特性的驅動。

其他評等驅動因素：這些標準包括影響特定保險組織評等的其他評等驅動因素。包括對新成立公司或停止新業務組織評等的限制，用來定義專業自保業者相對於其股東／發起人評等的參數，以及在評估資本適足性及財務槓桿時判斷混合證券股權或類似債務性質的方法。

分析師
歐非中東（EMEA）
Chris Waterman
+44 20 3530 1168
chris.waterman@fitchratings.com

北美洲
Julie Burke
+1 312 368-3158
julie.burke@fitchratings.com

亞太地區
Jeffrey Liew
+852 2263 9939
jeffrey.liew@fitchratings.com

拉丁美洲
Eduardo Recinas
+503 2516 6606
eduardo.recinos@fitchratings.com

A. 主要信用因素 － 概述

惠譽用於對保險公司或集團進行核心基本信用分析之主要因素如下。這些因素依其主要特性為定性和定量區分。於*第 XI-B節* 討論適用於各類保險評等之因素。

主要之定性因素：
- 主權和國家相關限制
- 產業情況和營運環境
- 市場地位及規模／大小
- 所有權
- 公司治理與管理

主要定量因素：
- 資本和槓桿運用
- 償債能力和財務彈性
- 財務表現和盈餘
- 投資和資產風險
- 資產／負債和流動性管理
- 準備金適足性
- 再保險、風險降低、及巨大災害之風險

在適當及具重大性時，惠譽可根據適當之惠譽評等方法，評估任何非保險相關之風險和曝險。

在有限情況下，其他之定性因素可能限制新成立和突然停業組織之目前評等。細節請參閱第 VII 節。

本節僅對財務比率作高階討論，以全球層級提供數個主要財務比率之概述。這些全球財務比率將於第 35 頁起詳細討論。實際上，惠譽分析所用之財務比率遠超過這些比率。

這些信用因素將被用於對「受評單位」之分析，其可能為單獨的保險公司、合併集團或集團之一部分，視評等如何進行而定。惠譽分析之第一步即為定義受評單位。

作為一般評估之部分，惠譽會考量以市場為基礎的指標，例如，信用違約交換（信用違約換）率、債券價格、市場隱含評等、權益之市價以及股價走勢等。惠譽評等完全取決於保險公司之信用基本面，前述以市場為基礎之指標可協助辨識相對財務彈性，以及作為辨識市場資訊和氛圍變化之工具。

B. 主權和各國之限制

惠譽分析中之重要步驟為評估主權和國家風險環境，以及判斷其是否會對獲得評等有所限制。

下表彰顯保險評等如何與國家上限評等或主權信用狀況有關，或可能受到之限制。更多詳情請參閱惠譽網站www.fitchratings.com 可取得*之國家上限評等*（2015年8月），以及*各國回收率評等之處理*（2013 年 6 月）。

國家上限評等非為評等，而是用於分析某主權管轄區內個體之外幣評等上限以及該轄區內債務所受限制之關鍵入資料。由惠譽主權評等集團於授予國家主權評等時同步開發而得。

主權評等係表達政府之信用程度及履行債務之能力，通常同時授予給政府之本國貨幣及外幣債務。政府若遭逢財務壓力，因壓力往往涉及經濟疲弱或體制問題，所以某些時候會影響位於該國所有個體之信用品質。但壓力對該國各個體造成之影響程度截然不同。

本節討論之所有限制皆不適用於國內評等。請參閱 *第 VI-F 節*有關主權限制如何影響評等級距之討論。

圖 I-1：主權和國家上限評等概要

基本限制	對可得評等之影響
國家上限評等	**外幣評等 (外幣)：對某國外幣**評等加諸上限，反映惠譽認為在主權危機期間，可能會有因施加外匯施加管制而產生轉讓與可兌性 (T&C) 風險之觀點。在有限情況下，某體可獲較國家上限評等更高之評等，若其造結構上可免於受到 T&C 風險（例如，大部分資產位於境外、國外策略夥伴願意且有能力給予支持等）。 **本國貨幣評等 (本國貨幣)：因**未有 T&C 風險，不受限於國家上限評等。
主權評等	**外幣和本國貨幣評等：**非常穩健之個體，若其被認定可充分抵抗主權危機，可被授予高於適用之本國貨幣主權評等。保險組織之評等通常不會高於本國貨幣主權評等 1 至 2 個以上之評等，除非： a) 其狀況展現出應高於主權之評等， b) 保險業者未直接暴露於限制主權評等之限制，以及 c) 保險業者未持有大量政府債券。惠譽注意到，在許多新興市場中，政府債券為保險業者投資組合之大宗，在此情況下，評等即不太可能高於主權評等。然而，在有限情況下，若保險業者信用強大，擁有龐大規模及多元國際業務（高於保費收入淨額 20% 以上持續來自於境外），即使其持有大量政府債券，惠譽會允許該保險業者最大限度可多高於主權評等一個級距。 此外，保險業者若能取得強大外資股東支持，其外幣和本國貨幣評等亦可能高於主權本國貨幣評等。
其他考量	**對可得評等之影響**
保險公司財務實力 (保險公司財務實力) 評等	保險公司財務實力評等通常不會特別授予本國貨幣或外國貨幣評等。對保單持有人之債務以多種貨幣持有並不罕見。若本國貨幣為主，保險公司財務實力評等將按上以本國貨幣評等處理之。若外幣占重要地位（ 例如，預計將高於保單總債務之25%[a]），則保險公司財務實力將被如外國貨幣般評等。

[a] 以壽保險非連結準備金和非壽險保費收入淨額為代表。外幣- 外幣。本國貨幣- 本國貨幣。

C. 產業狀況和營運環境

強而有力的監管，加上對財務實力的基本業務需求，才能共同創造一個能有效推動保險公司管理階層，並讓營運策略與已開發國家市場投資級別、或安全的IFS評等一致的營運環境。

保險監管法規的目的是保護保險消費者和保戶。在功能上，涉及償付能力的維持，核准商品，發給經銷商許可和監測市場行為。幾乎在所有司法管轄區中，監管機構都會強制要求最低資本標準，對資本流動施加某些限制，制定最低風險管理架構和規定財務報告要求。這種審慎的監管水準，通常會導致相對較高的進入門檻。

由於保險公司對保單持有人在索賠事件承擔付款承諾，保險公司的財務實力是買家和經銷商的重要考量因素。因此，以商業利益而言，保險公司會管理其活動，以實現堅強的財務實力和經營情形。對於要向有經驗客戶銷售複雜商品的公司，情況更為如此。由於監管單位的監督和業務上所需要財務實力，保險公司的違約極為罕見。

雖然保險公司的經營環境一般會促使其達成高水準的財務實力，但在不同產業上仍有差異。在其他情形相同的情況下，保險業中被視為在較高風險部門中營運的組織，與在較低風險部門中營運的組織，評等可能會更低。例如，對IFS而言，惠譽未對任何產權保險公司的評等高於'A"。但對某些壽險和非壽險業者的評等會高於該水準，尤其是互惠基金。此差異係因許多壽險和非壽險公司相較，產權保險的單一性更為多元化。

有關某些部門的產業情況和營運環境如何評估，更詳細討論如下。

非壽險

在已開發國家市場中，非壽險公司典型的IFS評等範圍，係根據該部門的環境特點，為“AA”和“A”的評等。

在已開發國家中市場，許多非壽險公司擁有強大資本，良好的財務表現和通常屬高品質的投資組合。非壽險保險公司出售的某些保險商品係法律所要求（例如汽車保險），其他保險商品實際上為依規定（即財產）處理。因此，保單持有人需求很大，在支出的決定上，變化相對不大。 若有變化，通常是與限制和所購的承保範圍有關，而非保險與否的決定。非壽險和人壽保險不同之處在於非壽險商品是購買而非賣出，所以替代商品的威脅非為非壽險保險公司的重大風險。

非壽險公司受到競爭是承保週期的主要驅動力。競爭增加了保險供應，亦降低了保險商品的價格。隨價格下跌，資本離開市場，競爭因而減少，費率再次上升。承保週期的結果所導致的波動是非壽險保險公司面臨的主要風險，需與投資回報率和釋出前置損失準備金內含盈餘等其他利潤驅動因素共同管理。

由於資本效率是許多管理團隊和投資人的目標，非壽險保險公司股票很少持有足夠支持“AAA”IFS評等的超額資本。擁有較少商品或市場關注度的非壽險保險公司，可能會有低於“A”的IFS評等。

壽險與年金保險

位於已開發國家中市場的壽險公司，典型的IFS評等範圍，根據該部門環境特點係為“AA”和“A”評等。

已開發國家市場中，許多人壽保險公司擁有不同業務情況、強大的資本、良好的流動性和一般而言屬高品質的投資組合。人壽保險公司銷售的許多保險商品，係以可預測的現金流和有限的提款風險進行支付的長期承諾。這種穩定性讓壽險公司在資本市場遭逢困境時仍能持有其投資，調整提供的商品或定價，以反映所承受的困境，勉強度過詭譎多變的市場或監管環境。抵消這種有利特點的是壽險業商品銷售的自我決定特性。因商品是出售而非購買，新業務可能取決於經濟環境，替代商品的吸引力，以及經銷商的技巧。

由於資本效率是許多管理團隊和投資人的目標，壽險公司的股票很少會有足夠支持“AAA”IFS評等的超額資本。擁有較少商品或市場焦點的壽險公司，可能會擁有低於“A”的IFS評等。

再保險

根據該部門環境特點，再保險公司典型的IFS評等範圍是“AA”和“A”評等。

在已開發國家中市場營運的再保險公司，通常是資本充足的公司，採用保守的投資策略和謹慎的準備金策略。大型和業務線多樣化的頂級再保險公司，與專精有限數量業務線較少的小型及區域性利基再保險公司間會形成差異。專業再保險公司較更多元化的同業而言，波動水準可能更高。

在再保險市場中營運的公司，因與暴險距離較遠而面臨數個特有的挑戰。 除了非壽險和壽險公司面臨的一般風險外，主要的再保險業風險包括抵押要求的潛在流動性需求，資本市場替代再保險商品的持續威脅，進入市場的門檻較低，對準備金和定價資料的依賴，財產損失暴險的巨大波動，再保險損失的超額責任，以及對經紀人經銷上的重度依賴。此外，壽險再保險公司需發展和維持獨特的承保專業知識，以及面臨對流行病或其他致命性災難的重大暴險。

透過規模和信用強度提供承保能力，對再保險公司而言，產生的競爭優勢比在初級保險部門的作用更大。再保險的使用上，鑑於非壽險公司對其的使用較壽險公司更為廣泛，非壽險的再保險業規模更大，因此，其比壽險再保險業提供更多的市場機會。

大型的全球多元化再保險公司可達到“AA”評等，但更小，更專業的再保險公司不可能
達到高於“A”的評等。

產權保險

根據部門環境特點，美國產權保險公司典型的IFS評等範圍是“A”和“BBB”評等。

美國產權保險公司受到監管限制，只能銷售產權保險。因此，這些公司的單一特限制了其整體信

用。 某些公司透過不受監管的附屬公司銷售輔助商品和服務。好處是需要產權保險以完成房地產交易，因此需求相當可預期。替代商品的威脅非為產權保險業者的重大風險。

主要的產業風險因素包括高水準的固定成本; 與房地產市場活動周期連結的高度暴險；因代理人間欺詐活動而遭受的暴險；定價和準備金的不確定性; 以及與日俱增的產業監管。其他風險尚包括主要參與者間的激烈競爭和商品的大宗化性質。

少數大型國家級的業者可達到“A”的IFS評等。區域性的保險公司更有可能達到“BBB”的IFS評等。著重在極小地區的保險公司，可能會擁有低於“BBB”的IFS評等。

意外和健康／美國管理式醫療險

根據部門環境產業特點，美國健康保險公司典型的IFS評等範圍是“A”和“BBB”評等。

惠譽將產業分為兩類：商業市場（包括個人和雇主集團市場），以及主要由政府資助的醫療保險和醫療補助市場。主要在醫療保險或醫療補助市場競爭的健保公司，其評等範圍低於主要在商業市場競爭健保公司的評等範圍。 惠譽認為醫療保險和醫療補助市場受政府干預影響較大，並且較不能產生如商業市場業者般的利潤和資本穩定性。

惠譽認為美國健康保險產業是成熟的和高度競爭的。因需開發提供商照護網路和規模，所以進入門檻很高。競爭主要是根據價格，因商品的差異化很難開發和維護。定價能力受制於商業市場的激烈競爭，以及政府在醫療保險和醫療補助市場中的作用。

該部門主要信用風險包括政府在商業、醫療保險和醫療補助市場中扮演顯著角色產生的監管風險;依賴第三方提供該產業商品醫療保健和服務;普遍想參與金融槓桿的意願，此為惠譽視為中等積極性；以及該部門是否會被收購。這些風險可藉由一致的商品需求，以及通常可被預測的應用趨勢，穩定的收益，高品質的投資及短期和穩定的準備金部分減輕之。

考量所有因素，健保公司的評等被有效地限制在“AA”水準，因惠譽認為政府角色鮮明，在各種情境下可能會有更大作用，具有可有效防止該部門呈現支持 “AA +”或“AAA”IFS評等的穩定性和盈餘能力特點。 只有最大、擁有最多利潤的健保公司，才能達成“AA”和“AA-”的IFS評等。

大多數商業承保人會達到“A”和高“BBB”的評等。此外，對主要在醫療保險或醫療補助市場上競爭的健康保險公司而言，潛在和可能的評等範圍是“BBB”和較低的“A”評等。

回教（Takaful）保險

根據該部門環境特點，回教保險業者的典型IFS評等範圍是“BBB”評等。

惠譽認為大多數回教保險業者受到承保能力的限制，且與傳統競爭對手相比，因業務規模較小，更易受利潤和資本波動影響。與傳統保險不同，回教保險公司在進行業務時，必須遵守回教原則。回教保險業者沒有標準全球營運模式，每一環節都可能涉及不同基本合約安排。因此，每一環節都須單獨覆核，如可轉讓性，資金可獲得性，損失承擔特點，費用和回教保險基金間的盈餘分配。主要與傳統保險公司相同業務線中競爭的回教保險業者，通常會擁有較低的評等水準。

惠譽不核准，認證或評估伊斯蘭律法是否遵循法規。 相反地，其希望了解伊斯蘭律法理事會和管理委員會間就回教保險營運活動的組成和相互作用的程度。

該部門主要信用風險包括因不斷發展資本標準而導致的監管風險，日益增加需為管理回教保險業者的承保能力；回教保險公司和傳統公司間激烈的市場競爭；低品質資產的投資風險，因伊斯蘭律法對投資有所限制，特別是在對伊斯蘭債券（Sukuk）投資供應有限的市場；以及當回教業者使用低品質回教再保業者以遵循伊斯蘭律法法規時，再保險交易對手的風險／可收回性再保風險。這些風險在因政府在某些地區要襄助該產業、增加商品創新及經銷範圍，有利的人口統計，以及因購買能力的增加，公眾越來越接受回教保險模式而稍減輕。

考量所有因素，大多數回教保險業者因伊斯蘭律法原則下的獨特商業特點，以及不斷發展的商業情形而獲“BBB”評等。少數大型，資本充足，持續盈利的回教保險公司可獲“A”的IFS評等。

財務保證

根據該部門環境特點，商業導向金融保證人的典型IFS評等範圍是“A”評等。

惠譽所授與的評等包括各類型金融保證人。包括位於美國的商業保證人，其投資組合專注於風險較低的美國市政風險，以及與超國家聯結的公共保證人，例如可能專注於新興或已開發國家市場公司風險的多邊開發銀行或政府。

在金融危機前，大多數金融保證人持有“AAA”IFS評等; 惠譽不再認為“AAA”是商業金融保證業的適當IFS評等，反映此產業單一性焦點，商業模式的高度敏感，在壓力下財務實力可承受得的變化為中度，以及該業的財務靈活性為有限。

若支持為強烈而明確，IFS對公共保證人的評等可與保證組織相當。在特定情況下，若母公司／贊助組織的評等為“AAA”，這可使評等達到“AAA”。

D. 業務情況

保險公司的業務情況不僅顯著影響當前信譽，更重要的是其能更長期維持信譽的能力。對業務情況的評估，考量保險公司在主要業務部門（包括資本和保費/收入的絕對值），保險公司面臨的商業風險類型，以及這些風險的多元化。業務情況的固有弱點或過度風險可有效限制保險公司的評等，而不論保險公司的其他財務情況。

在許多但非所有情況下，惠譽注意到保險公司業務情況的強度與其絕對大小和規模間存在強烈的正向關係。

競爭態勢

保險公司在關鍵業務線中競爭地位的優勢，可能會對對其維持理想財務表現水準的能力產生重大影響，從而影響整體財務實力。惠譽對競爭定位的看法受公司經營規模，品牌實力，特許經營價值，服務和經銷能力的影響。

在大多數保險市場，經營規模直接影響經營效率；經濟規模; 風險傳播；以及再投資業務的能力，皆可產生競爭優勢。經營規模在業務單位層面和合併基礎上被檢視，並藉由業務量（由保費和/或資產來衡量），資本的絕對大小和相對市場份額來定義。在惠譽的評估中，重要的是需了解保險公司利用其大型規模獲得競爭優勢的程度，或小型規模如何影響所選定業務的有效競爭能力。

關於個別資本和費率/收益基準的部門級別詳細資訊，請參閱 https://www.fitchratings.com/site/criteria/fi 上各種惠譽部門信用因素報告。

品牌實力，特許經營價值和經銷皆可對所產生業務的數量和品質產生重大影響，並可能成為主要業務線的進入門檻。品牌實力和特許經營價值反映公司聲譽和對客戶的親和力，會直接影響保險公司維繫現有業務和吸引新業務的能力。在許多業務領域，經銷強度直接影響商品風險和定價能力。最後，保險公司的經銷管道可以直接影響對監管和聲譽的暴險。

業務風險情況

保險公司的業務風險情況，係根據與公司主要業務線相關的風險。主要業務風險因素包括商品多寡，費率數量變化，財務表現的波動性，經銷管道和各公司主要市場的監管環境。該保險組織所選擇商品的性質和經銷方法可放大和降低上述要素的商業風險因素。

因此，了解業務風險的關鍵是評估公司特定經營策略，例如公司如何減輕和/或擴大公司所選定業務的暴險，特別是在壓力的情境中。

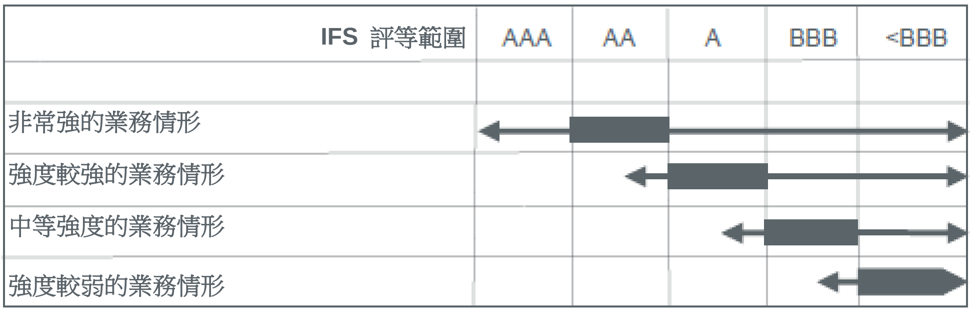
多元化

惠譽評估業務情況的一個重點，係關鍵業務線和市場內部及彼此間的多元化情形，包括經銷管道及多元化對保險公司的收入及收入的穩定性是否有所助益。業務的集中可能會使保險公司的業務風險暴露於未能預期的市場不利發展或政治/監管環境變化之下。雖然市場、商品、經銷管道和地理位置的多元化可在中等壓力條件下因加入穩定性而有正面意義，但惠譽了解，表面看來多元化的企業，在極端的情形下這些因素可能會變得更為相關。

評等

業務情況被歸類為「非常強大」的保險業者，通常是其所選擇市場中最大者，擁有低業務風險情況和高水準的多元化情形。惠譽認為，這些公司擁有可持續的競爭優勢，在不承擔不當風險下，擁有能積極影響吸引和維持業務，獲取／控制經銷及產生一致的收益和資本的能力。

表 **I-2**： 根據企業情況的評等範圍



表格說明

在上圖 I-2 的箭頭表中，較粗者表示大多數公司可能會處於的評等範圍。

延伸到箭頭外較細的環帶，反映出理論上可達到的所有評等範圍。

在較獨特環境中數量稍少的公司，落於由箭頭和較厚環帶區間所代表的評等範圍。

業務情況被歸類為擁有「強」的保險業者，通常缺乏上述「非常強」營運情形中的某些特性。 這些公司在其所選擇的市場中擁有競爭為有效率的良好記錄，以業務量或資本而言，通常為中等規模；業務風險情況較溫和；和/或擁有合理，但較低水準的多樣化情形。不太清楚其在顯著惡化市場條件下可否維持競爭力的能力。

業務情況被歸類為「中等」情形的保險業者，通常缺乏許多較大競爭者的經營規模，並且以絕對大小而言其為較小型；多元化情形亦較為有限；遭逢較大暴險的情形亦/或較高，市場或業務線表現不佳。 較小和專注較小領域的公司通常屬於此類。這些公司被認為易受市場條件惡化或競爭加劇的影響。

最後，業務情況被歸類為「弱」的保險業者，惠譽認為其在市場條件惡化，或面對定位更好或更大競爭對手競爭帶來的高度競爭時非常脆弱。這些公司通常非常小和／或少專注於極少領域，或近來蒙受無法競爭的不利變化，並且不具有任何明顯可持續競爭的特點。

E. 產權

產權係指自受評單位角度評估產權之影響，惠譽在進行評等之初即會定義產權。惠譽之終極目標係評估對評等而言，產權係為中性、有利或不利。

互助相對於股份制（上市）之產權

除「 AAA 」評等外，公開產權公司之評等上限若為「 AA + 」，對評等而言，上市和互助產權皆被視為中性。雖然上市公司通常具較高財務彈性，且較易取得資金，但互助產權之業主和債權人間之利益衝突較少。

惠譽目前並未，亦不預期會對除互助形式產權保險公司外之其他形式保險公司（即使有，亦為極少數情況）授予「AAA」保險公司財務實力評等。惠譽認為，為要達成股東要求之報酬率門檻和最低（若有的話）競爭優勢，而要在保險公司財務實力上取得「AAA」評等，而非「AA」評等，意味「AAA」評等通常對於非壽險業務部門之股份公司未有任何經濟實益。互助保險業者，就另一方面而言，因資本報酬率非其優先順序，因此較有動機持有超額資本和流動部位，或採用其他較為保守之風險管理措施。

此以下表說明已開發市場之壽險和非壽險公司之情形。

圖 I-3：依產權形式之評等範圍

私有制

保險機構之產權若由私營公司擁有 – 例如，避險基金、私募股權公司、銀行或企業/工業個體公司，則對保險之評等可為中立、正向或負向，如表中所述。

若私人業主之評價較高且預期能支持該保險集團，則為正向影響。這通常最可能發生與私人業主有綜效關係之情況下，例如，銀行保險業。

若母公司評等較低，及／或因任何理由預期母公司治理保險集團之方式可能會增加其風險、撤資、或使該保險公司暴露於母公司結構中之非保險風險，則影響可能為負向。

超國家產權

保險機構產權若由超國家組織所持有，（例如開發銀行），可能為中性、正向或負向。超國家組織若取得極高評等，且預計能支持保險機構（通常使用可贖回資本工具），則該產權即屬正向影響。此外，被超國家擁有產權之保險公司，類似互助保險公司，在達成資本報酬率目標需使用槓桿手段時可能較無太大壓力。某些情況下，由超國家擁有之保險公司可免除其贊助政府之外匯管制。

此外，由超國家擁有的保險公司，與互保業者相似之處在於可能較不會有需要撐起符合資本回報率目標的壓力。此外，在某些情況下，由超國家擁有的保險公司可能免於該支持其之主權國政府外匯管制。

惠譽使用超國家支持標準評估超國家對保險組織產權的影響。本報告中詳述之標準係用於提供獨立評估（請見第五章），在超國家術語上亦稱為「固有等級」（請見超國家評等標準，2015年5月29日）。

受評單位定義觀點

若惠譽對評等之評估涵蓋母公司債務評等，及所有（或大部分）附屬保險公司之財務實力評等，

則受評單位可能會定義為整個組織。在此情況下，產權即會根據最終母公司之產權。這可能包括公開產權、互助（保單持有人）產權，或某種形式之私人擁有權（另一公司、私募股權投資、政府等）。

另一方面，若受評單位被定義為較大型組織（保險業或非保險業）下之一個或數個子保險公司，產權首先應根據該保險公司之直接、私人產權評估。於此情況時，惠譽將依前所述，考量保險公司在該組織之角色。若為適當，惠譽亦將考量直接隸屬母公司之最終產權。

與集團評等方法和評等級距之不同

惠譽注意到使用此種產權評估方式，與惠譽集團評等所用之方法（第 IV 節）截然不同。後者提及在對某保險組織內不同營運公司成員評等時，應根據其彼此間之關係。有關產權，其如相關章節所定義。

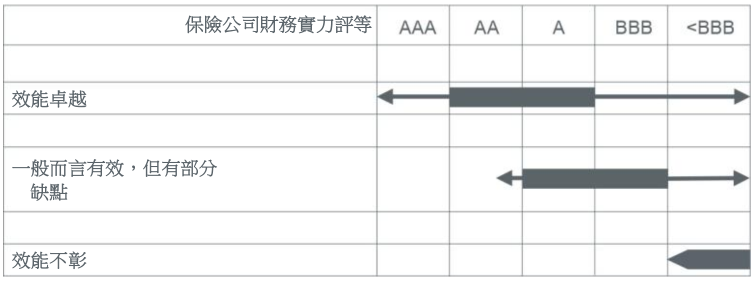
於此討論之產權，亦有別建立控股公司相對於其營運子公司評等之評等。第 VI-章 C 節將討論控股公司之評等級距。

F.　公司治理與管理

保險組織之治理和管理可影響本節討論之其他所有主要信用因素，惠譽對管理／治理之評估可能亦會與其對公司整體基本信用狀況之評估重疊。然而，惠譽仍可會對組織之管理和治理，進行其他額外之特定評估。

在所有其他因素不變之情況下，良好之治理實務不會提高評等。但當治理實務受到越多限制，無論是管轄權或發行人個別之企業治理問題，可能會較其他一般定量和定性信用因素更易使評等降低。下表以已開發市場中之壽險和非壽險公司為例，僅說明治理弱化會顯著降低評等。在某些情況下，可能因為保險業者之企業治理效能過於低落，導致惠譽未能給予評等。

圖 I-4：根據企業治理和管理之評等範圍



惠譽會評估司法管轄權和個別發行人特性。有關更進一步之公司治理細節，惠譽於《公司治理評估》報告中討論，其為本標準之背景資料。會影響保險業評等之治理之負面因素包括：

- 董事會缺乏實質獨立性或活動策略。
- 管理團隊被視為效能不彰，若管理階層主要成員觸犯工作相關之民事或刑事法規，或在極多情況中公然忽視董事會對風險之容忍度。
- 重大稽核相關問題，例如內控環境出現多重顯著弱點、未有查核意見或不利查核意見、財務報表慣性遲交，或查帳員因在具重大性之會計處理上有主要分歧意見而被更換。惠譽通常會在具不利意見之財報公布時，或於發行人無法如期公布財報時，瞭解這些查核相關問題。評等程序通常無法預測此類事件。
- 相關人交易高度可疑。

上述領域中較不明顯之弱點仍有可能會限制評等。

此外，惠譽通常期待保險公司之管理和治理完善，並具備有效風險管理流程。分析師可能會考量之組織風險管理領域包括：

- 管理階層之風險承受度和對整個組織之溝通。
- 風險管理部門之獨立性，以及管理高階對風險管理議題之瞭解和參與。
- 組織所認知過程之有效性，以及在某些情況下，相對於組織風險承受度之監管工具。
- 所有風險是否集中管理，或易於彙整，可為全面性風險檢視。

惠譽未有查核管理系統之立場，一般而言，本機構對管理風險之公開評論，僅在其視被為會影響評等之主要驅動因素或異常現象時才會為之。若管理階層與惠譽無互動，該評估通常根據歷史績效、同業比較及／或市場情報為之。

G. 資本和槓桿運用

惠譽對保險機構資本之分析係根據數個觀點，並包括對以下之覆核：

- 資本適足率（CAR） ，係評估保險公司法定資本（或類似衡量）相對於該保險營運機構之曝險強度。例如，惠譽用於評估美國、歐非中東和亞洲壽險和非壽險保險業者之 Prism 模型。
- 財務槓桿比率（ FLR），其係用於評估使用債務，或類債務之混合型證券，同時進行籌募長期資本及短期流動需求之情形。主要焦點在於籌募法定資本，因此財務槓桿比率通常不包括「匹配募資」或用於營運之債務。
- 融資和承諾總額比率（T外幣），其係用於評估某組織之債務總額、融資，以及資本市場足跡，以及其對持續資金來源之整體依賴度。

在不同保險部門，不同國家和司法管轄區之上述比率形式可能有所差異。後者可反在映監管報告標準和慣例上之差異。

例如，資本適足率在美國通常以法定營運公司水準評估之，以反映監管重心為子公司層級之資本。但在歐非中東地區，通常以合併集團層級（除公司層級外）為之，反映該地區較重視集團監管。惠譽於解釋上述比率時，將考量監管差異及資本被管理方式之動機。

在美國，監管對保險公司子公司資本化之重視導致廣泛使用控股公司結構，以及運用傳統之雙重槓桿（亦即，控股公司發行債券或類債務之混合型債券，所得作為子公司之純股權資本）。惠譽瞭解子公司層級之資本適足率可由該活動受惠，此時覆核控股公司之財務槓桿比率即非常重要，以判斷在母公司層級資本雙重槓桿之程度。

在歐非中東地區，對集團之監管較為普及，控股公司較不常使用雙重槓桿，此係因資本適足率通常在合併集團層級評估。然而，在歐非中東地區較廣泛使用混合型證券，以判斷包含於資本適足率中之資本水準（在美國，混合型證券在子公司層級之作用有限）。在此情況下，惠譽會將使用混合型證券視為潛在財務槓桿之重要來源。

資本適足率

資本可為保單持有人和其他債權人提供緩衝，使公司能吸收其所經歷之不利偏差，且可代表保險機構財務實力之重要部分。惠譽評等進行分析時所考量之資本適組率形態可能包括：

- 惠譽專屬之以風險為基礎之資本評估工具，包括 Prism 資本模型元件，以及用於抵押和產權保險之工具。
- 營運槓桿比率，例如淨簽單保費收入對股東資金之比率，或負債總額對股東資本之比率，通常不作風險調整，但若為財務保證所用之面值對之資本槓桿比率時，會依風險調整。
- 法定資本比率，會依各司法管轄區而有差異。

惠譽認為上述各資本適足率各有優點，將依特定情況給予不同評估結果適當之權重。

以風險為基礎之資本評估，可瞭解資本充足之情況，營運槓桿比率則可指出薄弱之資本，惠譽可根據判斷加重任一組比率之權重。雖然多數情況下，以風險為基礎之評估方式較為穩健，但若有可以營運槓桿比率測知之較高槓桿「遠端」風險，亦可於對該風險低估之情況下造成嚴重之資本減損。

在財務壓力情況下，無論係因監管干預，或在不同評等中納入該評估觸發，或因訂約引起之風險，監管之評估皆為重要考量因素。在此情況下，對監管之評估易成為惠譽資本化分析時較重要之指標。

在有限情況下，若保險公司提供惠譽其有關內部自有資本之模型，惠譽亦會加以考量。然而，由於所提供資訊之紮實度有限，且難以將其與其他保險業者和惠譽指導原則相較，由保險公司內部模型產生之結果通常在惠譽進行整體資本評估時影響極小。

壽險和非壽險選用之 資本適足率 比率中位數準則如下。

圖 I-5：資本適足率中位數指導原則

	保險公司財務實力 (保險公司財務實力)			
	AAA	AA	A	BBB
簽單保費收淨額相對權益之比率（非壽險）(倍數)	0.5	1.1	1.8	2.5
淨槓桿（非壽險）(倍數)	2	3.5	5	7
營運槓桿（壽險[a]） (倍數)	7	11	15	24
NAIC RBC比率（美國，壽險） (%)	450	375	270	200
最低持續資本及盈餘要求 比率（加拿大，壽險）(%)	220	180	165	140
償債能力比率 I（歐盟，壽險）(%)	220	175	150	125
面值對資本槓桿（財務保證）(倍數)				
極少發生／嚴重性低	30	50	90	150
極少發生／嚴重性低至中	20	30	45	70
發生頻率中等／嚴重性混合				
無貨幣風險	7.0	10.0	15.0	20.0
未有上限之貨幣風險	5.0	7.0	10.0	16.5
極常發生／嚴重性高				
無貨幣風險	2.5	3.5	4.5	6.0
未有上限之貨幣風險	2.0	2.5	3.5	5.0
極常發生／嚴重性高				
無貨幣風險	1.5	2.0	2.5	3.5
未有上限之貨幣風險	1.0	1.5	2.0	3.0

[a] 若負債包括重要之獨立帳戶，內有利潤或萬能壽險準備金，則不適用中位數指導原則。
最低持續資本及盈餘要求 - 最小持續資本與盈餘要求。

Prism 資本模型

惠譽之 Prism 資本模型包含以風險為基礎之組成，或為隨機，或根據某因素，端視保險業者之住所或業務線而定。惠譽並不認為以隨機或因素為主之方式，一者必然優於他者，只要該模型能精準發展即可。各司法管轄區究竟要採用何方式，極度仰賴是否可得該資料。

- Prism 之目標資本 (TC)，或由隨機過程，或應用風險因素於曝險資料得致。除其他風險外，目標資本考量同時由出售保險商品和投資活動得出之曝險。在穩健原則下以漸進方式，以及在模擬／假設壓力下，建立不同之目標資本值。
- 可用資本（AC）反映個體或集團之權益股本，惠譽將依不同之分析予以調整。這些調整通常可反映在經濟及／或保險困頓期間，某受控停業保險公司之可用資本金額，因此不會給予如現行營運中業務這些項目全額信用。
- 「Prism 分數」說明目標資本為可用資本超過之最高水準。Prism 分數可以極強、非常強、強、適當、稍弱描述之。

惠譽強調Prism分數僅為一項資本實力指標；因此，根據第 I 節說明之其他主要信用因素，保險業者之 Prism 分數可能高於或低於整體 保險公司財務實力或發行人違約評等。

當內部驗證流程完成後，惠譽將持續公布更多有關 Prism 之細節。迄今，惠譽已公布有關*美國非壽險 Prism 資本模型* 及歐非中東地區和亞太地區使用之 *Prism 風險基礎資本模型*之模型定義文件，可免費索取。請參閱惠譽網站 www.fitchratings.com以瞭解評等程序使用 Prism 模型之最新發展。

關於惠譽使用於美國產權保險公司之資本模型之模型文件，請參閱可免費索取之*產權保險（美國）信用因素* （請參閱*附錄 B*）報告。

財務槓桿比率

依照惠譽定義，財務槓桿比率 係用於掌握長期資本（亦即，支持法定資本適足率或用於籌募收購資金之資本）來自債務，或類似債務混合型證券融資的程度。財務槓桿比率 亦包括用於中短期流動資金或營運資金所需之債務（通常發生在控股公司層級）。

惠譽所使用之主要 財務槓桿比率 是調整後之負債資本比率，定義如下：

$$\frac{\text{債務} + \text{混合性證券之負債部分}}{\text{權益資本} + \text{負債} + \text{混合型證券總額}}$$

分子和分母之債務以面值表示，並排除「匹配募資」債務形式（有些人稱其為「營運債務」）。該類債務因不符前述籌措長期資本或支持流動資金之定義而排除。本報告第 IV節將討論如何自混合型證券得出債務之部分。

依使用之財務報表不同（例如美國之一般公認會計準則、國際財務報告準則或其他會計基礎），財務槓桿使用之權益資本定義可能會有差異，若可取得適當資訊，對權益資本之常用分析調整如下：

股東權益（或約當之權益），加上：

- 在適當情況下，因對負債帳面價值之會計方法，調整固定收益相關投資資產相對於帳面價值（即攤銷成本或相當者）的價值。
- 納入少數股東權益，但僅於「負債」包括多數股權個體資負債所引起之少數股權債務
- 納入為未來所提撥之資金、平衡準備金與類似資金。

商譽是其他考量因素。當商譽非常重要時，惠譽可能會計算兩種財務槓桿比率版本，其一將100% 商譽包含於股本中，另一為將其牌除於股本外。當利潤率和固定費用涵蓋率強勁以及權益股本市價（上市公司）等於或高於債面價值時，惠譽主要重點會再第一種比率上。該指標表示商譽餘額可被證實。當本指標和/或其他指標表示較無法證實商譽價值時，重點就會放在排除商譽之第二個財務槓桿比率之版本 。

除負債資本比率外，在其他情況下，惠譽可能會替換財務槓桿比率。例如，評估美國健康產業時，惠譽通常會考量債務對稅前息前利潤（EBIT）之比率為最能提供具資訊之財務槓桿比率。

分析師和委員會在執行敏感度分析時，可能會考量財務槓桿比率之其他可能版本。例如，分析師可能會由權益股本內移除價值可疑之資產，加入某發行人之所有混合型證券，或在負債內加入部分匹配籌募之債務。若變更財務槓桿之計算方式對評等影響重大，將於相關研究報告中揭露。

除檢視任何 財務槓桿比率 之水準和趨勢外，惠譽亦會考量提高比率。短期債務和包含契約限制或加速觸發之債務，其風險通常視為高於長期無承諾之債務。因此，混合之債務結構可能會影響惠譽對保險公司 財務槓桿比率 相關優勢之觀點。

評等委員會可檢視與分析最有相關性之 財務槓桿比率 並給予權重。若擁有重要性，將於相關研究報告中披露。

財務槓桿比率 比率之中位數準則如下表所示。

圖 I-6：財務槓桿比率中位數準則

	保險公司財務實力 (保險公司財務實力)			
	AAA	AA	A	BBB
調整後負債對總資本比（%）	7	20	28	35

融資和承諾總額（ 融資和承諾總額比率 ）比率

由於惠譽 財務槓桿比率 定義之範圍較少，僅看到債務融資之部分，因此惠譽亦檢視 融資和承諾總額比率 比率。

融資和承諾總額比率 比率包括：

- 各種形式之債務，其中包括匹配募資債務和營運債務，以及支持長期資金需求和流動及營運資金需求之債務。
- 有追索權和無追索權之資產證券化。
- 用於向第三方提供抵押／擔保之信用額度（常見於再保險交易），或其他理由之信用額度，例如準備金融資。
- 各種類似債務之承諾，例如財務保證，除非發行人是財務保證業者，否則皆包括債務名目價值總額對信用違約交換（信用違約換）銷售額之比率。融資和承諾總額比率 比率之分子排除財務保證和 信用違約換，因為面值對資本槓桿比率已涵蓋槓桿。

加總前述不同值後，除以權益資本（如前頁定義）。

融資和承諾總額比率 可協助釐清「融資債務」和「營運債務」之間之模糊界線，並可掌握不同資產負債表以外之融資風險，例如資產證券化。模糊之界線包括各種準備金融資活動（資產證券化、信用狀融資、承擔之匹配募資優先債務）、隱含價值證券化、巨災債券、保險附屬公司擔保借款，以及控股公司（非營運公司）發行之匹配募資債務。

在市場混亂且失去資本市場融資之期間，營運和資產負債表以外之承諾可能會成為組織直接資金來源之漏洞。

因為 融資和承諾總額比率 涵蓋極度分散之各類曝險，且其中風險變動極大，惠譽不會在任何既定評等層級內運用絕對標準制定 融資和承諾總額比率 目標值，因該評等適用於該產業之所有保險業者。但是，評等委員會有時會針對特定組織建立分配評等層級最高 融資和承諾總額比率 上限。將於相關研究報告中予以披露。

當組織之 融資和承諾總額比率 水準提高或高於同儕時，惠譽可評估 融資和承諾總額比率 各種曝險伴隨之風險。包括下列任一風險：

- 融資和承諾總額比率 融資及／或承諾對資本之槓桿運用程度。
- 組織無能力再融資債務和其他 融資和承諾總額比率 承諾之弱點。
- 請求 融資和承諾總額比率 承諾之流動性。
- 融資和承諾總額比率承諾惡化可能導致之資本損失，以及該損失之槓桿影響。

請注意，「總體」僅是用以說明 融資和承諾總額比率 採用廣泛之基礎。沒有比率或一套比率能真正涵蓋公司全部之暴露風險。

H.　償債能力和財務彈性

固定費用／利息涵蓋率

利息涵蓋率是測量支付利息之能力，利息定義為 EBIT／融資利息費用（排除「匹配募資」債務之利息），EBIT 為息前稅前利潤。低利息涵蓋率一般會導致評等降低，及／或營運公司和控股公司之間之評等級距擴大（若採用區隔評等級距）。通常會以營運收入為基礎測量 EBIT，一般會排除已實現和未實現之資本收益和損失。

然而，當這些項目之金額龐大（尤其是有關投資組合真正壓力之損失）時，惠譽亦會觀察包含這些項目之涵蓋率。惠譽亦可能納入實現及／或未實現收益或損失，以配合其他會計處理方面。例如，若為國際財務報導準則或英國一般公認會計準則報告之英國壽險公司，則惠譽會在反映負債處理方式之分子中納入未實現以及實現收益和損失，在資產負債表日藉由損益表重估負債以反映現行利率（非依「攤銷成本」帳面價值記載）。

固定費用涵蓋率之情況類似，且包括優先股或混合型證券之利息和股利。混合性證券之付款若可延期，除非實際發生延期狀況，否則惠譽不會調整該付款。

圖 I-7：固定費用涵蓋率中位數準則

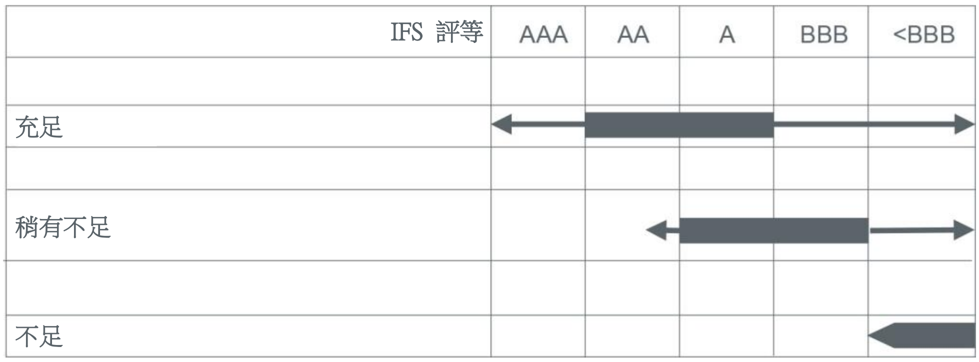
	保險公司財務實力 (保險公司財務實力)			
	AAA	AA	A	BBB
固定費用涵蓋率 (倍數)	18	12	7	3

在某些司法管轄區，亦會檢視其他形式之涵蓋率。例如，在美國，分析師可能會檢視最高法定股利（包括受監管營運公司發給控股公司之股利）對利息及／或固定費用之比率。

財務彈性

財務彈性係指保險公司根據需求產生額外資金之能力，具備財務彈性之保險公司較能取得成長、策略重新定位或彌補虧損所需之資本。公司運用低槓桿搭配到期日不同之均衡多元資金來源，是最具財務彈性之典範。

圖 I-8：依財務彈性區分之評等範圍



備份或應急資金可證明有益，尤其若缺乏融資契約時，在壓力下可能很難籌資。

惠譽亦明白，在壓力下，公司歷來強健之財務彈性可能會迅速消失。因此，惠譽在預測中不會假設面臨壓力之公司仍必然存在財務彈性。下表以壽險和非壽險業為例，說明財務彈性如何影響評等。

I. 財務表現和獲利

財務表現會影響組織內部產生資金之能力，若為正向影響，表示有能力吸收績效之不利偏差並提高財務彈性。

惠譽不僅考量獲利能力之水準，亦考量盈餘品質。盈餘若來自於可靠、可重複之來源，例如持續之承保獲利能力，則可視為優質盈餘。「一次性」項目，例如資產出售或異常釋出技術準備金，則視為較不優質。

獲利能力是否適當，取決於組織承擔之風險程度。承擔較高風險之保險公司會被認為擁有可較高水準之獲利能力，以補償其資金提供者。根據此觀點，低風險之汽車保險公司之預期報酬率將低於高風險之巨災再保險公司。

特定之財務表現比率中位數準則如下所示。

圖 I-9：財務表現比率中位數準則

	保險公司財務實力 (保險公司財務實力)			
	AAA	AA	A	BBB
綜合比率（非壽險）(％)	80	95	103	110
營運比率（非壽險）(％)	67	82	90	97
稅前資產報酬率（壽險）(％)	1.4	1.1	0.9	0.4

成長

評估財務表現之第一步是觀察保費或資產之成長趨勢。惠譽從審慎評等之角度觀之，通常，重視評等之提高，更勝於在市場或同業之間之成長，尤其是在競爭價格壓力期間。事實上，惠譽將過度成長視為保險公司未來面臨財務困難之關鍵領先指標，當憂慮事項值得注意時，過度成長會占評等相當高之權重。惠譽憂心之是有機成長或收購所造成之過度成長。保費收入或資產急劇下降，可能是保險代理快速消逝之指標，亦備受關注。

當成長有問題時，衡量亦非易事，最終仍需要市場專門之判斷。然而，就一般原則而言，在最已開發國家中之非壽險市場上，若全年保費變化大於整體產業成長率之 ±5% 以上，至於壽險公司，若資產成長大於整體產業成長率 ±10% 以上時，惠譽均將其視為警訊。

以下是對非壽險和壽險公司之補充意見。

非壽險之保險公司

非壽險（再）保險公司之盈餘評估檢視是評估承保獲利能力之第一步。惠譽之目之在於判斷全體客戶之健全度，以及管理階層對風險之瞭解程度和能否控制風險。

關鍵考量範圍包括：

- 績效與定價邊際效用，包括投資收入對定價決策之影響。
- 市場同業之績效比較。
- 承保結果隨時間之波動率。
- 費用效率和分保佣金對費用之影響。

惠譽是使用賠付率、費用率和綜合比率衡量承保績效。惠譽考量保險公司之業務組合、定價策略、會計實務、分配方式和準備金提存方式，俾利正確地闡釋前述比率。惠譽是以公司為整體探討前述比率，若可取得適當資訊時，則將依商品和市場區隔進行。此外，若可取得適當資訊時，惠譽亦會依曆年和事故年度之基礎檢視承保結果。

投資所得利潤可按利息、股利和資本利得形式記載，並可依課稅性質而定。承保收入、投資報酬及其波動率亦與承擔之風險程度相關。

惠譽衡量整體營運獲利能力－ 保險與投資－ 計算公司之營運比率，以綜合比率減投資收入比（投資收益除以已賺保費）。

壽險公司

惠譽會研究壽險公司之盈餘和各商品線之利潤，並合併計算標準之獲利能力比率。雖然當壽險公司擁有強大之獲利能力時一般可取得正向評等，但惠譽承認，強勢之近期獲利可能會導致承擔風險增加，例如避險不足等，對評等可能有負面影響。

惠譽亦會於營運和財務槓桿背景下說明獲利能力比率，指出高槓桿產生之高報酬將負面影響評等，以及，低槓桿產生低報酬實際上是風險降低之訊號。

惠譽是使用其他因應市場變化之量化衡量指標。例如，在特定情況使用隱含價值報酬率（ROEV）、新業務利潤率和隱含價值變異數，但僅限已提供「隱含價值」補充財務報表之壽險公司。主要包括歐非中東和亞太地區之大型壽險公司。

在可能情況下，惠譽將評估收益之多樣化，包括市場和商品在風險基礎和收費基礎收入之間之平衡，以及新銷售和先前有效業務之利潤混合，以進一步瞭解收益品質。在所有其他條件相同之情況下，通常多樣化收益之波動性較低。

除利潤外，惠譽亦會檢視銷售、收入、支出和資產之成長率，以作為績效衡量標準。根據市場情況和公司具體策略考量前述成長趨勢。

- 由於在許多市場上壽險屬於成熟產業，惠譽通常認為，能與市場平均值相符之銷售溫和成長才是健全之表徵。
- 快速成長往往是過於激進之跡象，尤其是當成長重心都在新商品（或新商品功能）上時，可能會對評等產生負面影響。
- 銷售急劇下滑可能是保險代理人弱化之跡象，管理層會感受到將承擔額外風險以增加銷售之壓力。

針對成長趨勢之主要起因提供量化說明，是惠譽評估之重要部分。

J. 投資和資產風險

在受控方式下承擔投資和資產風險，原本就是任何保險公司商業模式之內在部分。惠譽評估保險公司資產風險之四大關鍵考量是：信用風險，市場風險，利率風險和流動性風險。本章 J 節中將討論前兩項風險，於後續之 K 節中將討論後兩項風險。

固定收入投資往往是最大之資產評等。也就是說 ，保險公司會以組織之身分承擔不同程度之信用風險，權衡收益和違約風險而作出不同之選擇，以及，例如，遵照當地市場之監管限制而有不同之投資機會。惠譽會考量保險公司固定收入組合之混合型態、組合成分和信用品質。針對特定市場或評等之投資過度分散或集中，均視為對評等有負面影響。若適當時，將進行資產壓力測試，預估在較嚴苛經濟條件下之各資產評等之經濟損失，藉此評估保險公司之信用曝險。

雖然固定收益投資是保險公司投資組合之大宗，但投資組合內包括權益證券或不動產之情況並不罕見。隨時間進展，此類投資可提供較高之預期收益，但通常亦會大幅波動。

- 有時，惠譽之權益和不動產投資價值壓力測試，會考量保單持有人分擔（若有）降低之風險利益。
- 我們之目標在於考量嚴重市場低迷對資本之潛在影響。

權益投資部位可能包括金融衍生商品、避險基金或私募股權工具。由於這類型投資在估值和流動性方面將會有較大之不確定性，因此會更謹慎地研究這類型投資之集中度。

投資比率中位數準則如下。

圖 I-10：投資比率中位數準則

	保險公司財務實力 (保險公司財務實力)			
(%)	AAA	AA	A	BBB
風險資產[a] 對盈餘／權益之比率（非壽險）	25	50	75	100
風險資產[a] 對盈餘／權益之比率（財務保證）	5	10	15	20
風險資產[a] 對盈餘／權益之比率（壽險）	30	60	90	130
投資級以下債券對盈餘／權益之比率（壽險）	20	40	55	70
權益投資對盈餘／權益之比率（非壽險）	15	40	65	100

[a] 此比率係合併非投資級債券、無關聯股票及投資關係企業對盈餘 / 權益之比率。請參閱第 35 頁之財務比率定義。

在部分新興市場中，保險公司可投資外國資產，旨在增加其投資組合之多樣化及／或提高收益。然而，惠譽認為，資產和負債之間顯著之貨幣錯配，可能會大幅增加保險公司盈利和資本部位之波動。在這種情況下，若可取得相關數據和資訊，則惠譽將評估該公司之避險策略，包括使用之工具類型（例如，貨幣交換、替代避險）和相關成本，以及歷來之避險績效。

投資組合之評估將結合負債，成為資產／負債和流動性管理廣泛檢視之一部分，將於下頁詳細說明。相較於大多數非壽險公司，對壽險公司更為重要。

若可取得資訊，則惠譽將檢視發行人之投資準則，以助於判斷風險承受能力。尤其當投資管理外包給第三方管理者時，惠譽亦將關注確保遵守準則之控管措施。

於評估風險承受能力時，惠譽將依名稱或產業注意不尋常之投資策略，尤其是涉及隱密投資、流動性較差之投資或集中度使用。隱密投資可能包括避險基金、私募股權和有限合夥， 其中，部份可能會在內部運用。這些事項皆被視為可能大幅增加投資組合之風險，尤其是尾端情境。

對大多數保險公司而言，隱密投資僅占其總體投資組合或資金之一小部分，其目之在於適度增加報酬。但有些公司，例如所謂之「避險基金再保險公司」，在隱密資產上承擔了非常龐大之集中曝險。在這種情況下，惠譽之標準風險資產比率可能較無法詳實以對，因此可能採用為特定投資策略定制之技術，以評估相關投資組合之風險。將於相關研究報告中加以討論。

K. 資產／負債和流通性管理

資產／負債和流動性管理（ALM）是高投資槓桿壽險公司之重要風險因素，因為與業務和商品特點關係密切。

- 對擁有流動（可退保）負債高風險之壽險公司而言，強健之資產／負債和流動性管理是重要關鍵，尤其是有關保證條款之現金。
- 對流動性風險有限之壽險公司而言，為實現獲利目標，仍須具備適當之資產／負債和流動性管理程序。
- 資產／負債和流動性管理之兩項目標 － 流動性管理和收益管理－ 相關但不完全重疊。

反之，大部分非壽險公司通常會有足夠之現金流支付目前索賠，因此，在不利時間點變現投資之風險較低。流動性對壽險公司之短尾險種擁有較高之重要性，若發生大型巨災保險損失時，更會影響控股公司層面。

就承保再保險業務之公司，惠譽亦考量其承保業務之擔保要求對流動性和財務彈性之影響，尤其是擔保要求與融資承諾或評等觸發事件之依賴程度。

要指出的是，ALM和流動性風險評估往往依所發佈的財務報表及附註上之有限揭露為之。這使惠譽將依管理單位提供的資訊（依據惠譽的分析調整）或市場層級基準進行分析。

營運公司

惠譽是根據投資之可流通性及流動資產負債比，評估營運公司之流動性。惠譽亦會密切觀察公司資產負債表評估資產之方式。惠譽亦考量應收帳款和其他結餘金額，以及完全不流動資產（例如，關係持股或辦公室建築）之影響。

流動性比率中位數準則如下。

圖 I-11：流動性比率中位數準則

	保險公司財務實力 (保險公司財務實力)			
(%)	AAA	AA	A	BBB
流動資產損失比／理賠費用準備金（非壽險）	200	150	125	100
流動資產損失比（財務保證）	200	150	125	100
流動資產對保單持有人負債總額比（壽險）	85	75	60	45

由於公開財務報表和附註提供之資訊有限，有時，資產／負債和流動性管理相關風險評估可能擁有困難度。

就壽險公司而言，惠譽對於資產／負債和流動性管理和流動性風險之評估是著重於壽險公司資產和負債之特性，並且必須瞭解壽險公司之資產／負債和流動性管理方法 ，若可取得資訊，則根據一系列決定和動態情境評估公司之模型結果。關於籌募非預期現金需求之其他流動來源，將依其金額和可取得性進行評估。

其中，流動性風險被認為是非常重大因素（如某些美國壽險公司），對該壽險業者資產和負債流動性特點進行評估，以確定相對於流動性來源（將資產轉換為現金的能力）之預期流動性需求（如賠款和退保資金需求）。此外，惠譽亦以傳統流動性方法計算檢視現金流，將流動性資產和負債總額相較；亦使用其他定量措施和模型評估不同市場下之流動性風險。

流動性風險是惠譽對壽險公司之分析重點考量。但流動性風險會隨市場不同而有重大變化，完全取決於當地之營運環境。因此，凡可大幅增加或減輕壽險公司流動性風險之特定當地市場因素，惠譽亦將納入考量。

若流動性風險被視為極重要因素（例如對某些美國壽險公司而言），則會評估該壽險公司之資產負債流動性特質，以決定預期流動性需求（支付理賠和退保之資金）對流動資金來源（資產轉換為現金之能力）之比率。

此外，惠譽亦會觀察營運現金流，比較流動資產與負債總額，以計算傳統流動比率。惠譽亦可使用其他量化衡量指標和模型評估資產／負債和流動性管理和流動性風險，而流動性風險則因市場而有所差異。

非壽險（再）保險公司不太可能讓資產負債存續期間維持緊密之匹配，而壽險業者則是管理「價差」或無投資關連業務。若資產存續時間長於負債存續期間，當利率上升時，則會產生經濟價值下跌之風險。

大多數市場財務報表的揭露對利率相對風險只提供有限見解。獲致該見解時，惠譽會考量估計資產與負債之期間缺口，以協助判斷利率曝險。惠譽雖會考量不同期間缺口之計算方法，但最偏好衡量利率敏感性負債（即不包括單位連結，無擔保獨立帳目和大多數非壽險業務）和特別為支持該負債之資產（不包括剩餘資產）兩者估計期間之缺口計算。可獲致此資訊時，惠譽對期間缺口之評估將考量避險情形。

期間缺口中位數準則如下所示。

圖 I-12：期間缺口中位數準則（壽險）

	保險公司財務實力 (保險公司財務實力)			
（以絕對價值表示之年數）	AAA	AA	A	BBB
期間缺口	<0.5	0.5-1.4	1.5-2.9	3.0-4.9

請注意，以配合長期利率敏感性負債而言，惠譽一般認為與傳統固定收益資產相較，股市和房地產為較劣質的資產類型。因兩者皆不會在到期時提供確切支付金額，使該類資產期間難以確定。因此，當股市和房地產構成支持長期利率敏感性負債之資產的重要部分時，惠譽將採用股市和房地產期間範圍假設考量衡量整體期間缺口的靈敏度，通常會在2到15年之間。

瞭解到在衡量風險時，期間缺口有其局限性，有與其他保險業者之可比較性（因其假設性極高，通常僅依賴一個區塊利率之和緩變化，不提供對現金流是否匹配的見解），因此有可用資訊時，惠譽會考量其他分析形式，包括保險公司管理當局為符合法規所提供的評估情境分析，或因特殊狀況視為相關的內部分析。未有該保險業者之特定期間缺口資訊時，惠譽通常會考量一般市場資訊，看可否作為合理替代。

相對於管理「價差」或非連結業務之人壽保險業者對手，非壽險（再）保險公司不太可能在資產及負債間維持緊密之期間匹配情形。資產期間若較債務期間為長，其將因利率上揚而暴露在經濟價值下降的風險下。

- 由於非壽險公司有充足之現金流、優質投資，以及買入和持有之投資方法，錯配通常並非嚴重問題。
- 但在高通膨帶來經濟壓力之時期，較長期之存續期錯配將會使得非壽險公司面臨較大之資產和資本波動。

惠譽針對暴露於巨災損失之保險業務，例如財產再保險，將根據不同之最大可能損失模型（若可得）檢視保險公司可能產生充足流動性之方式。

持股公司

控股公司層面之流動性分析與營運公司不同，控股公司實質上獨立於各附屬營運公司之外，本身並不從事保險業務。通常，保險機構若產生流動性問題時，最有可能發生在控股公司層面。

控股公司不同於營運公司，通常沒有大量之流動性資產，且多仰賴現金流作為流動資金之主要來源。依年度現金需求（例如償債需求）維持保守成數之現金餘額，通常被視為謹慎作風。

對許多控股公司而言，再融資到期債務是產生流動性風險之主因。因此，惠譽將一併檢視當年到期債務和目前短期債務餘額。因契約觸發之非預期到期債務或付款，及／或正在實施之保證，均可能影響惠譽對財務彈性之評估。

惠譽於評估控股公司流動性時，可能會考量之現金流重要來源和用途如下。

圖 I-13：控股公司流動性－資金來源／用途

資金來源	用途
控股公司投資資產之盈餘	支付營運費用
子公司支付之法定股利	股東股利
子公司支付之非法定股利	優先股利

長期債務發行	利息費用
商業本票發行	出資子公司
股票發行	長期債務到期
銀行額度提領	商業本票到期
動用現金或出售投資	股份購回
其他資金來源	銀行額度到期（包括契約限制觸發）
	退休金計畫資金
	偶發事件
	其他用途

L. 準備金適足性

損失準備適足性是非壽險公司分析之關鍵部分，但也是分析中最具挑戰性、最易受到結果變化影響之部分之一。高評等之保險公司會展現出維持足夠準備金部位之能力。

資訊取得是能否進行評估之最大問題，無論從法定申報（例如，美國保險公司之 P 表，或英國審慎監管局之申報表 ）獲取資訊，或從管理階層取得用於內部分析之資訊，這兩種資訊所提供之資料都很有限且難以判讀。

惠譽亦非常重視準備金貼現、財務或有限再保險之用途，或降低準備金額度或可能扭曲可比性之會計技巧。

惠譽是從四個方面評估損失準備：

- 情況
- 成長
- 經驗
- 適足性

情況

惠譽於檢視準備金情況時，將會判斷準備金風險成為影響總體評等信用因素之重要性。準備金與資本、以及準備金與已產生損失，這兩項之槓桿比率（請參閱第 35 頁上比率定義）是本評估之首要考量因素。長尾之承保人通常採用較高之準備金槓桿比，如右表所示，高槓桿會使準備金評估占最終評等較大之權重。

圖 I-14：準備金占評等之權重

	準備金槓桿		
損失準備／已產生之損失	<1.0	1.0— 1.5	>1.5
>2.0	中	高	高
1.0— 2.0	中	中	高
<1.0	低	中	中

成長

惠譽會評估損失準備金是否依承保風險增加之速度成長。如右表所示，準備金成長率若低於承保風險成長速度，則代表警示程度升高。（請注意，於本準則中，若在財務指標中使用「警示」二字，即代表可能產生信用負向，因此惠譽將更謹慎地評估，以確定指標是否真為負向）。

圖 I-15：準備金成長

比率	持平	警示	高警示
已付金額／已產生之損失	<1.05	>1.05	>1.50
準備金／已賺保費比率變動（%）	>(5)	<(5)	<(15)

在《財務表現和獲利》（第 I 章 I 節）之評估中，惠譽亦考量保費收入對市場平均值之整體成長率。

經驗

評估準備金發展趨勢，可瞭解公司近期和歷來設定準備金之能力和專業度。於準備金之評估中，係將一致良好之發展視為正向，而逆向發展（或增加準備金）則代表警示程度升高。

圖 I-16：準備金發展

比率 (%)	<0%	0%—5%	5%—10%	>10%
一年之發展比率	持平	稍微警示	警示	高警示
五年之發展比率	正向	稍微警示	警示	高警示

圖 I-17：記載之準備金／預估中點值

比率	意義
>105%	正向
100%— 105%	持平
90%—100%	中度警示
80%—90%	警示
<80%	高警示

適足性

若可取得資訊，惠譽將評估目前提存準備金之整體適足性。根據任何精算報告之綜合觀點，管理階層揭露之內部或外部獨立精算預估之準備金點估計值或範圍值，以及惠譽本身之損失經驗數據分析，以進行此項評估。當準備金提存量低於中點值或最佳預估值時，代表應逐漸提高警示程度，而當準備金超過預估值時，則視為順向發展，請見下表。

評等影響

在大多數已開發市場中，準備金成長、經驗和適足性若維持「持平」範圍，則惠譽認為該準備金可能已達到 保險公司財務實力 評等標準「A」級。取得若干警示指標的公司（後續分析顯示負向風險結果），就準備金標準方面之等級可能是「BBB」或較低，而取得一個或數個高警示指標的公司（且顯示負向風險結果），則將被視為非投資級／非安全準備金標準（亦即，「BB」或較低）。

準備金指標欲取得「AA」或「AAA」等級，成長指標必須「持平」，且公司在準備金經驗和適足性兩方面，必須能持續呈現正向指標。準備金適足性取得「 AAA 」等級很罕見。

M. 再保險、風險降低、 巨災風險

保險公司可利用各種形式之風險保障，包括再保險、風險證券化、產業損失擔保（ILW）、或選擇權、期權或期貨等資本市場商品。惠譽之目標在於確定資本能充分保障大型損失風險，以及判斷分保公司之整體營運是否降低或提高。當然，能限制風險之嚴格商品設計和多樣化商品，皆可作為風險防禦之第一道防線。

- 能實質降低風險之再保險合約，將視為正向影響評等。
- 過度依賴特定降低風險形式，例如比率再保險或主動避險，可能會被視為負面影響評等。
- 過度依賴再保險會增加潛在對手、爭議和持續供給性之問題。

非壽險公司運用再保險之比例高於壽險公司。惠譽認為，較高評等之保險公司通常較少使用再保險，因其穩健之財務狀況和集中低之投資組合，使其更能自行承擔風險。

由於再保險仍是保險公司（尤其非壽險公司）降低風險最常使用之形式，因此惠譽評估再保險計畫係為取得下列安心數據：

- 購買足夠之再保險金額和類型，以限制特定險種產生之淨風險。
- 必要時可隨時購買再保險。
- 再保險之購買成本不會過度壓低分保公司之獲利能力而導致分保公司獲利能力不足且削弱其競爭態勢。
- 再保險公司之財務實力雄厚，因再保險公司無力償債導致無法回收款項之風險低。
- 與問題或健全再保險公司產生收款爭議之風險不高。

圖 I-18：再保險人比率中位數準則

	保險公司財務實力 (保險公司財務實力)			
	AAA	AA	A	BBB
再保攤回對盈餘／權益之比率（非壽險和財務保證）（%）	25	45	65	100
被保險之名義面值淨額被保險之名義面值總額（ 財務保證 ）(%)	100	85	70	60
單一風險面值對資本比率（ 財務保證 ）(%)	5	10	20	100

惠譽用以評估前述事項所需之數據，視各個公司而定，差異可能極大。在某些情況下，惠譽有時可取得再保險計畫之詳細資訊，有時僅可取得再保金額或再保險公司攤回之金額，以及應收帳款和分保準備金之水準。

保險公司亦可支持風險證券化，例如巨災債券。相較於再保險，風險證券化之交易對象信用風險極低或沒有，因為承保範圍完全是以優質流動資產提供擔保。然而，分保公司之保障因基礎風險而不夠完整之情況並不罕見，尤其是當付款連結產業損失指標或定義參數時。

保險公司亦可積極利用再保險，但可能增加風險。若為前述情況，惠譽會研究採用此再保險方式之理由，以及強調若計畫失序或逆向發展可能發生之情況。積極利用再保險之案例包括：

- 比率再保險超額分保，僅為賺取分保佣金。
- 有限風險再保險，移轉風險之程度低，風險融資之成分高（雖然有限風險交易之因素包含兩者）。
- 有限再保險可用以提高當期收益、平滑收益，以及有效折抵準備金從而提高資本。

惠譽通常認為有限風險協議創造之資本品質低於運用其他再保險形式（轉讓較多風險）取得之資本品質。

對某些壽險公司而言，再保險以外之風險減輕策略，在塑造風險狀況方面扮演了舉足輕重之角色，包括：

- 運用衍生避險商品，以限制變額年金或投資連結型商品之市場擔保風險。
- 在美國境內，運用各種策略「轉讓」壽險業務受到 Regulation XXX 監管之超額準備金，以削減法定資本。
- 在美國境外， 運用部分商品區塊 「隱含價值」證券化，以強化資本。

惠譽對衍生避險商品所作之評估，與「再保險」評估類似，但若可取得相關資訊，亦會考量基礎風險、管理策略、避險計畫相關之管控措施。對某些公司而言，其避險業務之歷史績效是惠譽評估之主要部分。

在惠譽之融資和承諾總額（融資和承諾總額比率）比率及其組成風險分析中（第20-21頁），會包含有關 Regulation XXX、隱含價值證券化、巨災債券或其他融資方式之評估。前述活動相關風險之變化非常大，而且惠譽認為這是保險公司發展迅速之融資活動。

壽險和非壽險公司均會遭遇低頻、高嚴重性之巨災事件。全球部分地區常見之風險包括颶風或地震，以及壽險或再保險公司會遭遇之流行病風險。

巨災風險

惠譽針對非壽險（再）保險公司所作之巨災風險評估，除傳統風險分析外，在某些地區，會同時評估第三方巨災風險模型之結果，並以評估資本相關之不同大型損失情境為最終目標。

在所有地區中，惠譽巨災風險分析皆將先評估公司之業務組合、地理集中度、保費成長速度、過去之結果，以瞭解公司之整體巨災風險管理情況。此類評估是從司法管轄區廣大市場範圍，以及公司特定市場理賠比例這兩方面，考量巨災風險之性質。

多數、但非所有之情況下，惠譽亦會檢視非壽險（再）保險公司內部巨災模式和軟體產生之結果。惠譽是根據不同之信心水準檢視模型結果，包括但不限於 100 年、250 年、500 年和 1000 年之概率，及較長期之概率（若可能）。惠譽認為完整評估極致最「尾端」之結果是非常有用之，在某種程度上可瞭解，實際災難事件之發生頻率似乎高於許多模型所暗示之頻率。

惠譽已授權 AIR Worldwide Corporation（AIR）之 CATRADER 自然巨災模型工具（主要用於美國），建立巨災風險模型，並於適當可行之情況下，提供符合各保險公司整體風險之損失分布曲線。

若以年度為基礎（總額和排除再保險兩者），巨災模型結果會比以單一事件發生為基礎更為有利，能讓惠譽掌握一年內多件事件之綜合效應和多元化曝險之影響。

- 若可能，惠譽之巨災風險分析將採用尾端風險值（T-VaR）法，而非最大可能損失法（PML）。
- T-VaR 是特定臨界值至最極致尾端事件之所有可能損失平均值，而非僅單一時間點 PML「重現期」事件。

若可取得資訊，此項較複雜之模型基礎巨災風險法能提供保險公司之間更穩健和更佳之差異化資本需求。但惠譽承認，任何模型基礎分析皆有不足之處，不應過度依賴任一種模型之結果而忽略了仔細判讀模型輸出結果。

N. 財務比率定義

第 I 章檢視保險公司財務狀況所使用之財務比率討論如下。這些定義擁有普遍性並採取全球觀點。精確之計算則依子產業或地區而有所不同。實際上，除了以下所討論之比率之外，亦會檢視其他比率。若同業群組內之保險公司使用不同之報告慣例時，分析師可調整標準比率計算以校整差異（若有用）。在此種情況下，標準財務算式中仍可能列示標準比率，但調整比率則僅在評論或註腳進行討論。

財務比率是用於評比同業績效、評等之中位數準則及惠譽對受評個體之期望值。在許多情況下，隨時間變動之比率值會產生絕對訊息價值。因此，惠譽通常會觀察至少五年之歷史數據。

資本和槓桿比率

簽單保費淨額對盈餘／權益比（非壽險）

本比率係顯示公司在目前承保業務之淨營運槓桿，並衡量定價錯誤對盈餘／權益產生之風險。淨營運槓桿之可接受水準隨業務線而有所不同，長尾業務和巨災業務由於定價錯誤之風險較高，通常要求較低之承保槓桿。由於簽單保費淨額會受到數量和費率適足性之影響，因此於解讀時必須特別小心，因為適足率下跌可能會導致本比例明顯提高。

淨槓桿（非壽險）

此係衡量保險公司在目前承保業務之淨營運槓桿，以及當年和去年度尚未結清之承保業務負債。本比率計算方式係以簽單保費淨額加保險總債務（技術準備金總額）減任何分包準備金之總額除以盈餘／權益，以評估定價和準備金錯誤對盈餘產生之風險。就本比率而言，長尾保險人之可接受比率值較高，而短尾保險人較低，反映損失準備金籌措之自然差異。

營運槓桿（壽險）

營運槓桿（壽險）是每一單位資本支撐之負債金額（ 不包括獨立帳戶或單位連結商品）。此比率並非風險調整衡量指標。在絕對條件下，或與提供同類商品之同業相比，此比率若較高，則通常會視為擁有負面影響。

淨面值對資本之槓桿比（財務保證）

淨面值對資本之槓桿比，係指保險之名義面值淨額（藉傳統之財務保證保單或出售信用衍生商品之被保險淨面值）占資本（業主權益加上惠譽就未到期保費準備金所作之權益預估值（若有）之比例。本比率會與連結被保險投資組合一般特性之風險基礎槓桿準則進行比較。

法定資本比率（ 所有業務領域)

在可取得資訊之地區，亦將檢視法定資本要求，包括美國保險監理官協會（NAIC）之風險基礎資本率、加拿大最低持續資本及盈餘要求（MCCSR）、歐洲償債能力比率（Solvency I）和其他地區之各類邊際清償能力。雖然，就部分地區而言，其當地法定資本規則之範圍有限且會導致較重視上述討論之簡單槓桿衡量指標。

財務槓桿比率（全業別）

本衡量指標會考量總體資本結構中之財務槓桿之運用程度。財務債務不包括營運債務，例如非保險金融子公司發行之債務，而僅包含保險相關之金融債務準備金。會特別謹慎評估申報之資商品質，並考量商譽等無形資產所支撐之部分。會調整比率以說明兼具債券和股票特性之混合型證券。請參閱第 18 -19 頁和第 *IV* 章以得知更多資訊。

融資和承諾總額比（ 融資和承諾總額比率)（ 全業別 ）

融資和承諾總額比率 是全面衡量債務相關槓桿作用之指標，其運用廣義債務基本上含括了所有之融資活動，包括傳統之金融債務及有追索權和無追索權之證券、銀行提供給第三方受益人之信用狀額度（國外或境外保險公司和匹配募資債務常用）、債務擔保和其他融資相關承諾。

本比率之目之在於衡量保險組織之債務、融資總額和資本市場之活動痕跡，以及對持續資金來源之整體依賴度。衡量結果將標示出依賴資本市場籌資程度高於平均值之公司，而惠譽更進一步分析，以瞭解公司不同融資活動之相對風險。融資高風險對評等擁有負面影響。請參閱第 19 頁以

得知更多資訊。

償債能力和財務彈性比率

固定費用涵蓋率（全業別）

可根據營運獲利和現金流這兩部分計算涵蓋率，以判斷可用於支付利息費用之經濟資源，包括租金費用利息和優先股股息。若適當時，亦會計算涵蓋率反映受監管個體之股息限制。

財務表現和獲利比

綜合比率（非壽險）

綜合比率係衡量整體承保獲利能力，其為賠付率和費用率（包括任何保單紅利）之總和。若綜合比率低於 100% ，表示擁有承保利潤。通常，較低之綜合比率會要求公司承保短尾保險以產生適度之投資收入水準，水準，或險種已產生週期性災難，或需要較長期間將定價轉為收入之其他大型損失。

賠付率係衡量當年度已產生損失 （包括理賠費用）占淨保費收入之比率。理賠和理賠費用是大多數非壽險（再）保險公司之最大支出項目。

保險公司之間之差異，可能是因為承保業務、險種期間、費用／理賠率相關之定價策略、不利理賠項目（亦即巨災），以及先前之業務發展和相關損失準備金實力變動等差異所造成。

費用比係衡量承保和展業費用，例如佣金、薪資和開支對淨保費收入之比率。可根據當地之會計慣例及費用發生方式，決定分母採用已賺或簽單保費，以期配合成本數量法。在某些會計制度中，於支付後即視為發生費用，而另一些會計制度則是在賺取保費後才發生費用。

保險公司之間之費用率差異，可能是因為經銷系統成本（代理、直銷、保險經紀人）、險種性質、風險承保需求變動、費用／理賠率相關之定價策略、固定與變動成本比、成本效率和生產率、利潤分享和或有佣金安排，以及分保佣金多寡等差異所造成。

營運比率（非壽險）

營運比率係衡量營運獲利能力，其係承保和稅前投資收益之總和，但不包括已實現和未實現之資本收益或損失。綜合比率減投資收入對已賺保費淨額比，即為本比率。由於結合承保和投資收益，因此本比率可用以比較長尾和短尾保險業務。公司之間難以進行比較之因素很多，包括：

- 營運槓桿差異，以及保單持有人權益項下投資資產所產生之投資收益金額差異。
- 投資策略差異，尤其是應稅／免稅組合，及低收入／高資本收益之創造收益投資（例如，普通股票）之分配差異。
- 長尾保險業務強勁成長，其準備金和投資資產餘額尚未累積至可反映成熟險種之水準。

稅前資產報酬率（壽險）

本比率係衡量公司使用平均資產之稅前、保單持有人分紅後之營運獲利能力。相較於股東權益報酬率，本比率對營運槓桿之差異不太敏銳。公司年齡和有效業務之混合程度都會影響本比率。

投資和資產風險比

風險資產對盈餘／權益比率（全業別）

此係衡量保險公司之權益資本（或法定資本）暴露於確定風險資產之比例，其中包括投資級以下之債券、無關聯普通股和其他風險資產。「其他風險資產」之定義依不同司法管轄區而有所不同，根據報告慣例和當地投資實務而定。其他風險資產，例如與市值波動及／或有限流動性相關，則包括關係人投資、另類投資，BA 表資產（美國）及／或房地產。本基礎比率是用以衡量保險公司在最大波動信用風險和市場風險之曝險情況。

投資級以下債券對盈餘／權益之比率（全業別）

此係衡量投資級以下債券（評等低於「BBB」）占盈餘／權益之比例，且該債券之風險高於平均值。某些司法管轄區之國家上限評等低於投資級水準，因此惠譽會衡量「危機」投資之曝險以作為替代指標。

無關聯普通股對盈餘／權益之比率（非壽險）

此係衡量普通股投資占盈餘／權益之比例。由於普通股會受到價格波動影響且按市價執行，因此高額普通股可能會增加盈餘／權益水準之波動因素。

資產／負債和流通性管理比率

流動資產損失比和理賠費用（LAE）準備金（非壽險）

此係衡量無關聯之投資級債券、股票和短期投資資產餘額，占公司現金涵蓋之保單所有人損失淨額和理賠費用準備金之比例。值越高，表示流通性越佳。

流動資產對保單持有人負債總額比（壽險）

此係衡量容易轉換為現金之投資資產與保單持有人負債之比，可針對不可退保負債作調整。按絕對條件和期間週期評估本比率。

準備金適足率

淨準備金槓桿 ー 淨損失準備金對盈餘／權益比
本比率係衡量準備金占資本之比例。高槓桿會增加資本對準備金順向／逆向發展經驗之影響。

準備金發展對盈餘／權益之比率（非壽險）

本比率係衡量公司之一年損失準備金發展占去年盈餘／權益之百分比，並顯示因準備金錯誤而導致高估或低估盈餘／權益之程度。

準備金對已賺保費之比率

本比率係考量損失準備金占承保風險（已賺保費是關鍵代表值）之比例。相較於當前之比率，本比率隨時間之變動值更顯重要。本比率若隨時間急劇下降，即表示準備金之成長與承保風險不一致，可能導致準備金適足性轉向負面。

曆年已付損失／曆年已發生損失

本比率係評估損失流動，以衡量已提存準備金之長期變化。排除一次性項目造成之保費收入異常變動或異常理賠經驗（例如巨災），保險公司之比重通常會接近 1.0 倍。

再保險、風險降低和巨災風險

再保攤回對盈餘／權益之比率（非壽險）

此係衡量公司之再保攤回信用損失風險程度。本比率包括所有再保險公司應攤回之賠款。一般而言，從關係企業、再保集團和協會攤回再保賠款，視為風險較低。應根據再保險人之信用品質、保險公司和再保險公司之間之關係穩定度、過去之收款模式、以及包括信用狀、信託帳戶或資金留存等任何形式之擔保，說明本比率之意義。就本比率而言，長尾保險人之可接受比率值較高，而短尾保險人較低，反映分保理賠準備金籌措之自然差異。

II. 最終評等內關鍵信用因素之權重

最終評等內關鍵信用因素之權重

評等係由惠譽評等委員會，透過對所有適用標準中強調的相關信用因素加以評估判斷而得出。同樣地，信用因素在確定評等權重時，係根據評等委員會的判斷而定，而判斷則因發行人而異。 對大多數國際量表評等而言，各種信用因素和標準要素的權重會在惠譽的研究報告中討論。

信用因素的加權並未於數學詞彙中定義，例如20%來自於資本，15%來自於收入。相反地，大多數的信用要素係根據評價的相對重要性來加權。其他信用因素及標準要素的權重，係根據其在所有信用因素組合下會限制或提升該評等的程度來定義。加權的過程如下所述。

定義信用因素的相對重要性

惠譽評等委員會通常會定義以下主要信用因素的相對重要性，即其對保險組織最終的評等具有“更高”，“中等”或“更低”的影響。 對任何給定的信用因素，並未採用任何標準進行加權。

產業情況和營運環境。

- 業務情況
- 資本和槓桿。
- 債務履行能力和財務靈活性
- 財務表現和盈利。
- 投資和流動性。
- 資產/負債和流動性管理。
- 準備金適足性。
- 再保險，風險減低和巨大災害之風險。

如第 I 節所討論，針對國際評等，保險組織對上述各信用因素的表現，由評等委員會根據與惠譽信用評等量表一致的方式描述。例如，根據第一節中評等的中位數比率，信用因素的資本和槓桿，評等委員會描述其為“AAA”品質，“AA”品質或“A”品質等。

所有信用因素的預設權重為中等

較低的影響會被不能為保險組織提供區別點的信用因素所替代。這可能係因該信用因素不構成保險公司基本信用狀況的重要因素。以再保險為例，風險減低和巨大災害風險策略對總體風險情況不重要，因另有產品特性或混合業務的好處存在。

若惠譽認為特定信用因素無法用於平衡其他更重要的優勢或弱點時，在某些情況下可能亦會以較低的影響來取代。例如，惠譽可能嚴重關切某弱質業務情形會侵蝕未來盈利能力並削弱資本。因此，即使保險公司有非常強大的投資和流動性，惠譽也可能會分配給這些投資和流動性較低的影響，因流動性不能抵消惠譽對該企業情形更為關注的議題。

對信用因素給予較高影響力是惠譽認為最能定義基本信用情況的情形。以上例子中，業務情況將會被分配予更高影響力。同樣地，同樣例子中，資本適足率特別強或特別弱時，資本和槓桿會被分配更大的影響。若弱值的營運確實會導致未來損失，強大的資本可保護資產負債表的真實性。同樣地，弱質的資本會讓資產負債表的真實性更易受扭曲。相反地，不太顯著的資本和槓桿定位可能在相同例子中可能會被分配到中度的影響。

其他因素及標準要素的權重

評等委員會通常會定義以下信用因素和其他標準要素會如何影響最終的評等：

- 公司治理和管理。
- 所有權。
- 主權和與國家相關的限制。
- 新成立和停止新業務考量。
- 非保險的屬性。

對上述各信用因素和標準要素，委員會會確定信用因素或標準要素是否對評等產生影響。視因素而定，評等可以是中性;有利;和/或不利，以及若非中性，有多少個評等級距。

根據第一節和第七節，此處列出的信用因素和標準要素通常可作為下調評等的限制，或提升評等

的有利屬性。例如，低主權評等可作為評等上限的限制。或者，母公司若為高評等且提供支持時，評等可為提升，由此可知所有信用因素的組合都有某些隱含。堅強的公司治理通常對評等而言是中性的，沒有正面或負面影響。

對所述信用因素和標準要素的積極，消極或中性影響的確定，提供其對最終評等加權影響的洞察。

隨時間推移加權的變化

應注意上述各種信用因素的加權可因評等的覆核而變化，因公司的表現在每個信用因素下會隨時間而變化，和/或惠譽的判斷亦會隨績效而變化。

例如，諸如資本和槓桿的信用因素可被指定在委員會最初覆核中提供“較高”的影響，但在隨後的委員會覆核中提供“中等”的影響。 例如，若資本適足率在委員會最初覆核中特別強或特別弱，但在隨後的覆核時為正常時，則可能發生這種情況。

同樣地，若委員會最初覆核後，主權評等因限制原因已去除，主權評等隨後升級時。這將降低其隱含的權重。

惠譽只有在評等委員會得出信用因素的評估會導致評等變化後，才會更改所授與的評等。信用因素評估的變化不會自動導致評等的變化，但若評等要改變，信用因素的評估必然已發生變化。

III. 前瞻性因素

前瞻性因素

即使在*單元 I* 中之基礎分析已回顧了大量歷史資訊，惠譽仍會在其評等分析中致力提出前瞻性觀點。雖說主要是由分析師與委員會以前瞻性觀點檢討重要信用因素時提出，但惠譽亦會採用以下技術：

- 預測
- 敏感性分析
- 壓力測試

依當時我們認為哪項技術能派上用場，對於各公司或評等動作會採用不同技術。

以下是對於各項技術之討論。

預測

預測是為了明確估測發行人未來之績效。預測可分為，發展一組預測財報和相關比率之詳細且正式之形態，或是，由分析師判斷趨勢，以一項重要比率或量表發展一般預測內容之較不詳細正式之形態。

保險評等分析中最常用之預測，就是預測重要資本或槓桿比率不會落在特定範圍外。

預測相關分析亦會檢討和解讀管理預測或指導原則。

目前，在習慣上，正式預測一組詳細財報或現金流並不會應用於支持保險評等，但若是分析師或委員會覺得它有用，或許會應用在特定個案上。

惠譽對未來可能事件之預測和期望，無論是正式或較不正式發展之內容，對於設定評等水準和績效期望皆扮演著重要之角色。

- 通常會在評等內加入被視為已知和可測量之基本個案期望。
- 相較之下，不會在評等中加入劇烈之壓力情境，尤其是極為不可能或不可測量之情境。但是有可能會在研究報告之敏感性分析中加以討論，如下所述。
- 有時，壓力測試之結果（下述）或其他負面情境亦會被作為一種預測。若認為適合，亦會納入評等因素。

敏感性分析

敏感性分析是為了找出與保險業者風險情況重要面向有關之評等內重要假設變動可能會造成未來評等變動之程度。一般著重於最長五年間會造成評等界限變動之風險情況面向。

應優先找出會造成假設變動之風險因素，且該假設變動進而可能會使得多個級距突然降級或升級之風險。例如，若是公司在合理之情況下可能啟動協議，且會造成重大流動性，這就會被視為在評等敏感性之範圍內。

敏感性分析亦會考量長期驅動一個或兩個級距評等出現較為適度變動之因素。

惠譽之目標是為了找出對於所提出之評等有著特殊重要性和相關性之敏感性，因此一般不會在敏感性分析中識別出戰爭影響性等極為「重大」事件。

然而，在災難再保險業者或財務導向非壽險保險業者之敏感性分析中，由於管理此類風險為其核心業務，因此會納入災難使得財物受損等重大理論事件。

惠譽通常會在已公布之報告內，藉由註釋之方式加入敏感性分析之結果。

壓力測試

惠譽在進行保險業評等時，會進行特定之壓力測試，以找出保險業者對中近期特定經濟環境或事件之弱點。壓力測試之範例包括，股權市場下跌造成之投資損失、主權對該國內發行人施壓之影響，或是保險週期谷底可能出現準備金金不足之情況。壓力測試又稱為悲觀情境。

惠譽會經常進行敏感性分析，但會臨時或「視需要」才會進行壓力測試，例如，若是預期股市在某段時間會出現異常波動，則惠譽會訂定和執行壓力測試，以考量市場下跌之幅度為指數值之特

定比例。

所以，會在得知經濟變動之初期和中期進行壓力測試。

保險業常對資本率、流動性及（或）依訂定之壓力事件或事件之盈餘測量結果，以形式分析之方式進行壓力測試。

在某些情況下，尤其是當惠譽認為會發生壓力測試訂定之負面情境時，惠譽會依形式壓力結果來進行評等。在其他情況下，則是為了取得資訊而進行壓力測試，且會是敏感性分析之一種形式。

景氣循環

在討論惠譽評等分析之前瞻性因素時，必須首要考量到評等在正常或微小週期性變動中不會發生變化，一般這稱為評等「景氣循環」。

簡言之，惠譽是希望透過各種上述技術，在任何時間對發行人未來績效形成合理之前瞻性期望，並在現有評等中合理加以反映。

唯有這些期望以外之績效才會使評等出現變化。

例如，惠譽認為在特定市場區隔中，非壽險保險業者之合併率會在承保週期之峰谷間出現 92% 到 105% 之波動。因此，若是週期在一年內下落，合併率從 100% 落到 104%，這就不期望會造成評等變動。不過，若是合併率跳到 115%，就會考量降級。

有關惠譽評等前瞻性意見的更多資訊，請參閱*定義評等情境的報告* - 基礎和下行情境及解決極端事件 - 對不可預見事件反應的評等 www.fitchratings.com。

加拿大

在最低繼續資本與盈餘需求（最低持續資本及盈餘要求）之背景下，惠譽會在其 資本適足率 中以 可用資本 之方式加入符合加拿大金融機構監理總署（OSFI）一級定義之混合型證券。

中國

在中國風險導向之償付能力體系（C-ROSS）下建立資本適足性需求之背景時，惠譽會在其 資本適足率 中以 可用資本 之方式加入符合中國保險監督管理委員會（CIRC）核心一級與二級資源定義之混合型證券。

日本

惠譽會在其 資本適足率 中以 可用資本 之方式加入日本金融服務局（FSA）同意之混合型證券，以納入法定資本。最常見之例子就是互險公司發行之「kikin」。

新加坡

在風險型資本架構底下建立資本適足性需求之背景時，惠譽會在其 資本適足率 中以 可用資本 之方式加入符合新加坡金融管理局（MAS）一級資源定義之混合型證券。

資本結構中混合型證券數量之限制

惠譽不會對保險公司資本結構中之混合型證券最大數量採取絕對上限。但是，若混合型證券開始在資本總額中之比例超過 20%（即混合型證券／混合型證券+債務+股權之百分比）時，評等委員會就會思考混合型證券債務般之特點是否會對組織現金流或財務彈性造成壓力。若是委員會有所疑慮，就會捨棄或減少有利之混合型證券處理方式。此適用於 資本適足率 和 財務槓桿比率。

混合證券：比率/權益信用的處理

A. 集團評等方法 – 重要概念

集團評等方法僅適用於保險公司家族中之經營公司，持股公司（請見*單元 VI-C*）與非保險公司之評等將另行說明。

惠譽會採取三項方法之其中一項來判斷集團成員特定保險公司之實際 保險公司財務實力 評等及（或） 發行機構違約評等：

獨立方法：嚴格依財務狀況給予集團成員評等，不受集團關係企業之影響。於此情況時，獨立評估會成為 保險公司財務實力／發行機構違約評等 評等。

部分屬性方法：反映其他集團成員之優劣勢屬性來對集團成員進行評等。於此情況時， 保險公司財務實力／發行機構違約評等 評等一般會落在集團評估與獨立評估之間。

集團方法：集團成員之 保險公司財務實力／發行機構違約評等 評等與集團評估為相同水準。

評等集團成員為一項雙因子函數，當每項擁有兩個主要因素時，惠譽會決定使用其他之方法，而不採用獨立方法：

- 提供支持之意願：
    - 關係企業之策略重要性
    - 集團成員間之支持協議
- 提供支持之能力：
    - 組織之財務實力，以及在壓力下如何限制提供支持之能力
    - 限制關係企業間之資本／資源移動之外部門檻

惠譽在對集團中之保險公司進行評等時，最終會依所有保險關係企業合併後之財務和風險情況建立意見，而在部分案例（非所有情況）下，則會對多個集團成員之獨立財務實力提出意見。惠譽會依是否適合此標準之情況，決定是否對特定公司採用獨立評估方法。請參閱單元第 64 頁《*參照財務實力*》或更多詳細資訊。

這些惠譽發展出之集團與獨立評估方法僅用於這些標準，並視情況決定是否公布。

為了簡單起見，本單元內其他內容討論之所有例子皆僅參照 保險公司財務實力 評等（雖然它們也用於 發行機構違約評等）。

B. 提供支持之意願

支持集團成員之意願是一項雙因子函數：

- 關係企業策略重要性
- 集團成員間之支持協議

通常，若重要集團成員彼此間較具策略重要性，惠譽就較有可能使用集團方法或部分屬性方法。若有正式支持協議時更是如此。

惠譽指出，其支持意願之評估結果極具判斷力，是第三方觀察員最艱難之決定。保險關係企業雖符合「核心」子公司（如下述）之各種屬性，但市場實際情況是，任何關係企業或業務線會隨時消失。因此惠譽會隨著時間而重新思考關係企業之策略評等或作為事件保證項目。

策略重要性

惠譽根據內部評估之目之，分配四項策略重要性評等之一給各保險關係企業：

- 核心
- 非常重要
- 重要
- 有限重要性

當視為有助於明確指述其評等基本原理時，惠譽會在公司研究報告中公布這些評等。惠譽指出，從策略重要性管理指標的角度來看，其策略重要性評估內容有時會出現極大差異。惠譽提出這些評估內容僅是為了用於這些評等標準，而管理指標則用於其他目之。

核心

核心包括保險業者，是集團內不可或缺之重點業務一環。核心關係企業會展現出：

- 過去支持集團目標的紀錄與未來成就展望，至少會與其他核心公司一樣。
- 核心公司之間存在綜效或互補之情況。
- 相對於整個組織及／或按絕對價值計算，核心保險業者之規模通常相當大。

核心保險業者之處置權會大幅變更組織之經營情況，令人懷疑組織之整體特許權是否亦會出現大幅變動。當出售或期滿自然流失核心關係企業時，會讓惠譽重新評估其集團評估內容。

應注意之是，某些組織有兩個以上明確之核心業務，常見之例子就是一家美國之保險公司擁有顯著壽險與非壽險業務，但兩者間之整合情況卻很低。惠譽會對各核心業務集團發展獨特之集團評估方式。

在某些情況下，若是保險業者為一項核心業務之延伸、擁有高度整合性及有效缺乏獨立身分，則惠譽會分配集團中之一個小成員作為核心。
例如，小型保險子公司：作為母公司策略下重要地區的營運中心; 為取得營運許可而設立，以便集團可在符合母公司策略的司法管轄區中營運，例如在美國紐約子公司; 包括公司間再保險合併安排，常見於北美洲; 並且是外國子公司，其主要策略目的是向母公司所投保公司當地的分支機構提供保險。

非常重要

非常重要包括有以下特點之保險業者：

- 未來成功之長期展望與核心成員有著協同關係，或許是因為規模或剛成立之關係，使得利潤不高。
- 非常重要之個體會以適度成長或部分適應方式達到核心狀態。
- 非常重要之保險業者之處置方式也許會讓人質疑組織之策略方向。

當出售或期滿自然流失非常重要之關係企業時，會讓惠譽重新評估其集團評估內容。

重要

重要評等包括：

- 擁有未來成功長期展望之保險業者，且與核心成員有著某種協同關係，但不符合核心或非常

重要之條件。

- 重要保險業者與核心業務有著較低之綜效關係、不佳之財務績效、相對規模較小，或是剛成立之組織。
- 非常重要之保險業者因利潤較小而未達核心狀態，重要保險業者則是因利潤差距太大而未達標準。
- 可在較小疑慮之情況下依對整體特許權之效果來處置重要業務。
- 常依帶動成長之意圖來管理重要成員，最終成為核心營運項目。

當出售或期滿自然流失重要之關係企業時，惠譽不一定會重新評估其集團評估內容。

有限重要性

從策略之角度來看，惠譽對集團之所有其他成員皆給予有限重要性。

- 雖然可能會有顯著出色之表現，但除了（可能）提供多種來源給盈餘流之外，與集團並無協同關係。
- 處置／期滿自然流失有限重要性之保險業者不會影響組織之經營情況，也不會讓人質疑整體特許權。

另外，可能出售之經營單位常被視為具備有限重要性。

評估策略重要性 － 常見問題

惠譽在取得結論前，會思考以下問題。惠譽不見得會在各個案中檢討這些問題，而是著重於認為最具重要性之特定情況進行檢討。

重大性
- 保險業者大幅影響了集團之財務和風險情況嗎？
- 保險業者加入集團有多久了？
- 保險業者在相對規模或絕對價值方面擁有重要性嗎？
- 保險業者之處置方式會減少集團之特許權或無益於落實集團策略嗎？
- 集團健全之經營或監管因素會對個別保險業者實施嗎？

績效
- 保險業者長久以來都支持集團目標（像是獲利能力、成長、多樣性）嗎？
- 與其他集團關係企業比較，保險業者在哪些方面擁有前景？

品牌

保險業者是否擕有集團名稱，或是集團之重要商品或商標？

管理與資源
- 保險業者與母公司或其他集團成員共享董事會成員或資深高階主管嗎？
- 保險業者與其他集團成員共享辦公室空間、後端辦公室功能、會計、資訊科技（IT）及其他系統嗎？
- 可以輕鬆地從組織切離保險業者之經營內容嗎？
- 保險業者為全資嗎？或是有重大少數股東權益會限制多數股份持有人之支持能力？

再保險
- 保險業者與其他集團成員間有再保險協議嗎？
- 這些協議之本質為何？對於支持又擁有什麼含意呢？

地點
- 保險業者與其他集團成員一樣，都位於相同之司法管轄範圍內嗎？

過去之支持
- 集團過去是否給予保險業者支持、資本及（或）經營協助？是否給予其他關係企業呢?

支持協議類型

某些情況下，支持協議對於評估集團支持會有顯著影響性，尤其是從策略角度來看非核心集團成員時。惠譽會評估集團成員間之支持協議，以依此標準判斷為正式或非正式。

- 在許多情況下，正式支持協議會提高集團成員之 保險公司財務實力 評等。
- 非正式支持協議雖能提供資訊，但對於評等結果並無影響性。

以下為惠譽觀察到之主要支持協議類型。

正式支持協議

債務擔保：在這項正式支持協議中，會由另一名集團成員或成員保證全額支付集團成員之債務。即使保險業者放棄，一般在擔保期間內不可對發生之債務取消和終止擔保（雖可針對新債務隨時終止擔保）。根據其不可撤銷之性質，這是最強之一種支持協議形態。

「財富分享」再保險：關係企業間採用成數分保或特定以董事會為基礎有明顯架構之限損協議，允許參與之關係企業之財富共起共落。常見之例子為再保聯營安排，但也可採用其他形式之再保險措施。為了將再保險視為一種正式支持，必須在關係企業之關係背景下以書面方式呈現。請注意，若是不相干之第三方能以相似條款提供再保險形態，及（或）不允許進行財富分享，即無法以這些標準視為一種支持形式。

資本支持協議：由董事會或高階管理授權者藉之正式支持協議，以維持集團成員之資本高於最低門檻（通常是以絕對價值或監管所需資本百分比之方式定義）。在某些情況下，對於增加之資本額設有絕對上限；在其他情況下則無限制。特定資本支持協議生效時擁有法令約束力，但若保險

業者放棄，則可撤銷和退出。

非正式支持協議

管理階層安慰函：在這份管理階層之書面聲明中說明視為核心、非常重要或重要之業務。管理階層「安慰函」說明了管理層級之意圖，可能某些管理階層必須背負較高之道德債務，以支持其聲明，以擁有加分效果。但安慰函並不具強制性，書面之安慰函被視為非正式支持形式。

策略聲明：管理層級在這份聲明中提出視為核心、非常重要或重要之業務，可能加入個別保險公司最低資本目標的口頭承諾。策略聲明不具強制性，若環境出現變動時則可修改。例如，新之管理團隊常會檢討所有業務之策略，或許會判斷前人認為重要但如今可能遭到處置之業務。

C. 提供支持之能力

支持集團成員之能力是一項雙因子函數：

- 組織財務實力，以及其在壓力下會如何限制提供支持之能力
- 限制關係企業間資本／資源移動之外部門檻

財務實力水準

當財務績效良好且信用基礎穩健時，各保險公司取得監管單位同意在關係企業間調動資本及其他資產之能力很少會出現問題。若提供支持者之 保險公司財務實力 評等為「A−」以上時，惠譽常會訂定此門檻。

但是當信用基礎薄弱或下滑時，保險監管機關會更謹慎地同意這件事。當評等機構、債權人、經銷商和客戶等其他成員認為與他們之期望背道而馳時，即會對資本移動抱持負面看法。管理層級將會受到較嚴密之監督，而此舉會限制自動調動資本和資源之能力。

因此，若對低評等組織使用集團或部分屬性方法，可能會限制上調評等。但若有正式支持協議時則存在著例外情況。請參閱單元「*參照財務實力*」，以取得更多關於對低評等集團施加此類限制之詳細資訊。

在某些實際情況中，惠譽會將輪廓點調高或低於「A−」，以反映特定情況。例如，在高度評等敏感業務中，會使用較高之評等標準；若是主權／國家信用限額使得評等一般低於「A−」或監管不限制資本流、集團成員能相互支持時，則會在開發中市場使用較低標準。

外部門檻

即使財務實力穩健，若是惠譽質疑有著顯著外部門檻時，也不會採用集團方法或部分屬性方法，外部門檻會阻止集團成員相互支持（儘管他們願意這麼做）。

- 這些門檻包括監管或法令限制、政府可能插手干預、不利之稅務結果及債務協議。
- 在許多司法管轄範圍中，以個別公司水準來規範各保險公司。

在幾乎所有司法管轄範圍中，法定資本率及（或）清償邊際要求會對上游股利支付和其他資本調動設限。再者，在部分司法管轄範圍中，保險業者可在特定描述之準則中自由調動資本及（或）投資資本。不過，保險業者需要特定許可來調動準則限制外之特殊資本。監管機關會依個別公司水準之分析結果，以決定給予特殊支付許可。此外，在未採用準則限制之司法管轄範圍中，監管機關會依各公司財務趨勢而禁止支付普通股利或調動資本。

各司法管轄範圍有著顯著不同之規範程度和外部因素阻止支持之程度。

惠譽注意到，在西元2000年代這十年間出現了大型國際保險業者有所成長、政府間增加合作，以及出現全球資本市場之趨勢，許多跨國間阻止資本調動之外部門檻紛紛消失，在歐洲已開發國家中尤為如此。然而，惠譽也注意到，在2008−2009年間之金融危機明顯使得部分地方監管機關對於授權給超國家監管機關或其他地方監管機關一事更加有所準備金。再者，國內政治考量亦會限制管理層級支持海外子公司之能力。此舉可能會減緩降低門檻以支持全球性集團成員之趨勢。

在新興市場中，當出現壓力時，來自政府之外部門檻會變得十分顯著。對於海外關係企業支持本地子公司之能力，有多項主權壓力與政府干預之歷史資料可提供深入之見解。

2001年之阿根廷危機造成保險公司持有之主權證券出現大規模違約之情況，而以美元為基礎之資產與債務出現非對稱貶值則使得準備金金價值與投資組合間出現顯著不相符之情況。於此情況時，海外股東無法挹注要求之資金來不斷支付因存款凍結、影響地方銀行體系而要求賠償之情況。在這些事件之後，有多家國際保險集團退出了阿根廷。

2005年發生在委內瑞拉之事件則較為緩和，政府透過價格控制和法令要求之方式特別插手金融業和一般私營產業。

這些負面動作都會使得國際保險集團不支持當地之子公司。

D. 参照財務實力

惠譽會根據評等之目之而採用以下一般指導原則來決定集團中個體之實力。以下為套用報告中之整體方法以取得最終評等之最多七個步驟順序：

1. 發展集團評估。
2. 評估各集團成員（意願）之策略評等。
3. 找出和評估任何正式支持協議（意願）。
4. 依集團財務實力（能力）考量任何支持門檻。
5. 檢討是否有任何重大阻礙支持（能力）之外力。
6. 發展集團成員之獨立評估（若認為有用時）。
7. 適當判斷所有上述相關因素，加上以下說明之標準，以取得最終評等。

惠譽在最終步驟中會依*單元 VI* 與 *IX*.中之復原假設差異調整公司之 保險公司財務實力 評等。

以下為對惠譽之作業流程所提出之額外註釋。在第 73–74 頁以表格說明相同之概念內容。

獨立評估

依上述步驟 6，當惠譽認為有用時，會依這些標準來發展獨立評估。若是依步驟 2 之策略分類為非「核心」，那麼特定集團成員之獨立評估或許會視為有用。若是在步驟 4 或 5 中對集團提供支持之能力有所疑慮，獨立評估是有其用處，除非透過步驟 3 中之正式支持，以結構性方式來降低風險。但在多數其他情況中，獨立評估就不見得能派上用場，一般也不會發展。在絕大多數受評之保險業者身上，即為後者這個情況。

有時，因資訊上之限制，惠譽僅能取得獨立評估之概略結果，例如，找出級距特定意見相反之評等評等。若是惠譽在多種方法中覺得這個方法有效，惠譽就會繼續評估集團成員。在特定之情況下，惠譽無法在級距特定或評等層級發展獨立評估（像是資訊上之限制或集團成員無真正之獨立財務狀況）。假使獨立評估被視為有用且對結果擁有重要性，但卻無法發展，惠譽就不會評等該公司。惠譽希望這會是罕見之情況。

基準指導原則

以下額外說明惠譽將標準用在四項策略評等上之內容。在以下四項策略評等中，若有一項具凌駕性之考量，亦即，若步驟 5 中之外部門檻嚴格指出不可置換資本，那麼，可以使用獨立方法（即實際評等等於獨立評估），除非步驟 3 中之正式支持協議降低風險。在下文中，由於外部門檻而參照限制反映惠譽認為有著潛在外部門檻會影響替代性，但不確定是否缺乏替代性。下述指導原則可協助惠譽判斷此認知到之風險會如何影響提高評等一事。

核心

参照之主要本質：惠譽會依步驟 2 之內容分配集團評估給集團核心成員之 保險公司財務實力 評等。

其他考量：若在步驟 4 或 5 中出現與支持能力相關之考量，則惠譽可能會限制完全使用集團評估。

表 V-1：核心：保險公司財務實力 評等上限

（連結至財務實力或外部門檻）

集團評估高於獨立評估	從獨立評估調高級距之上限
0–2	無上限
3–5 級距	3 以上
6+ 級距	4 以上

在進行判斷時，會依右上角之表格考量到獨立評估與集團評估間之級距數。

非常重要

参照之主要本質：在步驟 2 中確認出之非常重要保險業者，可依集團評估水準，或者依判斷在集團評估與獨立評估間進行評等。採用特定最高評等基準，以及限制集團提供支持之能力，會進一步地影響提高評等之程度。

表 V-2：非常重要：初始 保險公司財務實力

集團評估高於獨立評估[a]	相對於集團評估之最高 保險公司財務實力 評等
0–2	集團評等
3–5 級距	1 以下
6+ 級距	3 以下

[a] 若在步驟 3 中有正式支持協議，則最高 保險公司財務實力 評等為集團評等，儘管集團評估與獨立評估之間有著差距。保險公司財務實力 – 保險業者之財務實力。

其他考量：惠譽一開始會先調降集團評估之級距，以訂定非常重要保險業者 保險公司財務實力 評等之基準。惠譽會自行判斷調降級距之程度，但受限於集團評估與獨立評估間之差距（除非在步驟 3 中有正式支持協議），以及相對於集團評估之一般最高評等水準，請見右表。

表 V-3：非常重要：保險公司財務實力 評等上限

（連結至財務實力或外部門檻）

集團評估高於獨立評估[a]	從獨立評估調高級距之上限
0–2	無上限
3–5 級距	2 以上
6+ 級距	3 以上

[a] 若在步驟 3 中有正式支持協議，則最高 保險公司財務實力 評等為集團評等，儘管集團評估與獨立評估之間有著差距。保險公司財務實力 – 保險業者之財務實力。

另外，如同對核心保險業者進行之部分，若是在步驟 4 或 5 中可能限制支持能力，則惠譽亦會從以上初始基準之含意而提出 保險公司財務實力 評等之上限，請見右側下表。

重要

参照之主要本質：與非常重要保險業者類似，在步驟 2 中確認出之重要保險業者可依集團評估水準，或者依判斷和多項限制在集團評估與獨立評估間進行評等。所有其他內容皆一致，相對於集團評估，重要保險業者之評等可能低於非常重要保險業者之評等。

表 V-4：重要：初始 保險公司財務實力 基準

集團評估高於獨立評估[a]	相對於集團評估之最高 保險公司財務實力 評等
0-2	集團評等
3–5 級距	2 以下
6+ 級距	4 以下

[a] 若在步驟 3 中有正式支持協議，則最高 保險公司財務實力 評等為集團評等，儘管集團評估與獨立評估之間有著差距。保險公司財務實力 – 保險業者之財務實力。

其他考量：如同對非常重要保險業者所做之項目，惠譽一開始會先調降集團評估之級距，以訂定重要保險業者 保險公司財務實力 評等之基準。惠譽會自行判斷調降級距之程度，但受限於集團評估與獨立評估間之差距（除非在步驟 3 中有正式支持協議），以及相對於集團評估之一般最高評等水準，請見右上表。

表 V-5：重要：保險公司財務實力 評等上限

（連結至財務實力或外部門檻）

集團評估高於獨立評估[a]	從獨立評估調高級距之上限
0–2	無上限
3–5 級距	1 以上
6+ 級距	2 以上

[a] 若在步驟 3 中有正式支持協議，則最高 保險公司財務實力 評等為集團評等，儘管集團評估與獨立評估之間有著差距。保險公司財務實力 – 保險業者之財務實力。

另外，如同對非常重要及核心保險業者進行之部分，若是在步驟 4 或 5 中可能限制支持能力，則會提出 保險公司財務實力 評等之上限，請見右側下表。

有限重要性

参照之本質：在步驟 2 中確認出之有限重要性保險業者，會以獨立評估之水準、依獨立方法進行評等，除非在步驟 3 中有正式支持協議。

其他考量：若有正式支持協議時，可能會提高有限重要性之集團成員之 保險公司財務實力 評等，達到與集團評估相同之水準，不過，惠譽會判斷提高之程度，亦會設定提高上限，請見下表。

表 V-6：有限重要性：根據正式支持而提高最高 保險公司財務實力

	集團評估水準	
集團評估高於獨立評估	無財務實力相關門檻：調降集團評估級距	有財務實力相關門檻：從獨立評估調整級距
0–2	集團評估	集團評估
3–5 級距	1 以下	2 以上
6+ 級距	2 以下	3 以上

多項核心業務之案例

以上所述非常重要、重要及有限重要性評等之概念不僅適用於惠譽分配 保險公司財務實力 評等給集團多個成員之場合，也適用於惠譽找出集團內多項核心業務，分配單一集團評估內容給各核心業務之場合。

- 上述相同通用原則會影響到集團評估間之相對連結程度。
- 若兩項核心業務相互皆為非常重要，則兩者之集團評估會比兩項有限重要性業務之集團評估較為接近。

由於較大型、複雜之組織才會出現多項核心業務，因此惠譽並未發展標準級距指導原則，例如如何設定彼此相對之兩項集團評估。取而代之之，惠譽是依本報告討論之通用原則來判斷，並且思考這些相對於組織特殊面向之情況。

少數股東權益之情況

若特定集團成員擁有決定性少數股東（亦即 20% 以上），惠譽就較不可能完全提高評等，否則會在這些標準下意有所指。惠譽之想法是，少數股東權益會影響資本替代性及其他資源。

另一方面，若是其獨立評估本來就高於集團評估，出現少數股東權益亦會讓惠譽更有可能對特定集團成員給予高於集團評估之評等。出現少數股東權益亦會讓它較難以從較高評等集團成員方面取得資本。

若出現決定性少數股東權益時，惠譽會決定是否使用這些標準。

E. 策略評等變動

惠譽不時會依環境變動之情況而變更分配給特定個體之策略評等。依本報告之前單元中討論之指導原則，在許多情況下，變更策略評等會重新評估個體評等。在某些情況下，例如將策略評等從核心變更為有限重要性，可能會引起個體評等出現重大變動之情況（亦即，若非為多個評等，就是多個級距）。

惠譽將於以下討論於變更策略評等時可能會如何影響評等。

趨勢

若因出現新趨勢使得惠譽質疑是否要增減策略重要性而變更策略評等時，惠譽會變更特定個體之評等展望，且新之展望會與集團展望出現較大差異。

例如，若核心集團擁有穩定之評等展望，但惠譽對於特定核心個體提出較不具策略性之成長而感到不安，那麼，惠譽僅會變更該個體之評等展望為負向，以標示可能變更因較低策略重要性而導致之評等。

另一種情況可能是，即使保險業者未完全提高到核心集團評估，但其策略重要性明顯升高。

於此情況時，一旦惠譽確認會變更策略評等，同時亦會變更評等。

剝離 － 確認買家

另一個會變更策略評等之例子為實際發生、即將發生或可能發生之剝離情況。每一次變更評等之原因皆不相同。若個體因集團支持之利而使得實際 保險公司財務實力 評等高於其獨立評估，則惠譽即假設該個體會出現剝離之情況。

若集團宣布藉出售過去支持之個體之協議，且已找到買家，則惠譽會將個體評等置於評等觀察，直到完成出售一事後再行變更。

完成交易之際，視新買家之支持能力和意願（依實施本標準），個體之評等會變成其獨立評估、買家之集團評估或兩者之間之位置。

若根據任何原因惠譽未能／或無法評等新買家，或是判斷其支持意願或能力時，則惠譽會在完成交易之際撤回個體評等至先前之水準。

依評等中可能之發展方向，評等觀察之方向性指標（即正向、負向）會反映惠譽之最佳預想內容，或者，若是惠譽尚無法評估出可能之方向時，則會給予評等觀察為演變中之狀態。於此情況時，若惠譽已發展出獨立評估，且惠譽認為發布可提供相關資訊，即會在支持評等觀察之註釋這麼做。

剝離 － 未找到買家

假使集團宣布出售過去支持之個體，但尚未找到買家，或是管理層級正在為相關個體尋找替代策略，則惠譽會有以下考量。

惠譽雖會視獨特環境而對不同個案採取相異之動作，但此一宣布會使得惠譽變更其個體策略評等，最低至有限重要性，並且在宣布時啟動降級（若本標準指出）。

此類個案中之基本原理為，管理層級之公告內容本質上即指出策略重要性已有所變動。

再者，在未找到買家之情況下，個體未來之財務實力尚呈現不明之狀態，這也反映要在現有評等內反映之風險因素。

在這種情況下，管理層級可能會指出其僅會將公司賣給擁有相似評等之新母公司，而若是最後並未出售，亦會依過去相同之策略重要性水準來支持公司。此類公告通常是設計為表示，儘管有此公告，個體之財務實力仍會維持在現有之支持水準。管理層級之這種態度不一定會影響惠譽之評等決定，惠譽將自行判斷。

當找到買家時，就會運用前述之流程，包括等到出售作業完成時分配適當之評等觀察內容。

期滿自然流失

集團決定對一名或多名集團成員採取期滿自然流失以離開業務之作法，也可能會使得策略評等發生變化（變為有限重要性）。惠譽會依個案判斷此情況對評等之作用，而且集團成員之評等與集團評估間之持續關係會思考如何進行期滿自然流失一事、依期滿自然流失情況取得之獨立評估，以及任何正式支持協議。管理層級表示持續支持期滿自然流失個體，例如在較大之市場中準備金集團之整體信譽，依惠譽之判斷，不一定會影響惠譽之評等決定。

請見*單元 VII*，以取得更多關於期滿自然流失公司評等之內容。

F. 參照弱點

本報告之主要重點雖放在兩家關係企業間參照彼此優點之原則上，但是惠譽亦會考量拉下集團中其他成員評等之較弱關係企業之情況。表現差之關係企業雖然不是核心、非常重要或重要，但多數集團卻會避免「離開」它之身邊，因為它會對其特許權產生負面印象。

換句話說，管理層級常會感到背負著道德債務以確保表現不佳之關係企業擁有償債能力，並且提供資本及其他形式之財務支持，直到能永久解決這個問題（通常透過剝離之方式）。因此，即使無正式或非正式之支持協議，惠譽亦會思考表現較佳之關係企業支持較弱者之可能性，即使僅是暫時性之支持。

這些情況中，惠譽會思考支持量和可能性。

惠譽接著會評估，經由資本攤繳、額外借款、再保險協議、吸收費用等方式提供支持，會對保險業者帶來之負面影響。

若是這些潛在行動會帶來顯著影響，則惠譽會根據判斷來調降提供支持之保險業者之評等、調高收到支持者之評等。

G. 評等高於集團評估

這雖是罕見情況，但在某些情況下，全資集團成員之評估仍有可能高於集團評估。惠譽一般會猶豫給予高於集團評估之評等（除了前述少數股東權益之情況），原因在於，若是集團出現財務壓力時，會從擁有較高評等之集團成員處取得資本或其他資源以確保集團之財務地位。

惠譽在這些標準下考量給予高於集團評估之評等時，需思考以下這些內容：

獨立評估自然高於集團評估：集團成員擁有其本身獨立經營和財務基礎架構，且其業務與集團整體業務無關。

穩健之策略基本原理評等高於集團評估：通常，這會出現在高度評等之敏感業務，集團成員之評等無法與集團評估之水準比較。於此情況時，管理層級管理集團成員之邏輯動機（例如其財務資源）無法替代至集團之其他部分。根據此標準之目之，惠譽不會視較低評等敏感業務取得較高評等之目標為充足之基本原理（亦即，汽車保險業者尋求「AA」評等，而集團評估為「A+」）。

因違反區隔而對集團造成重大不利結果：換句話說，因降低集團成員之評等（抽走財務資源之故）而對集團造成不利經濟影響性，應大於取走財務資源所產生之經濟利益。在兩個所期望與言之有理之壓力情況下之確如此。惠譽覺得這是這些標準最重要之面向，也是管理層級最難以展現之。

依靠集團全體給予融資是極為有限之情況：舉例而言，經由資本攤繳來支持成長。集團成員愈是依賴低評等集團之績效，惠譽就愈不可能對集團成員給予高於集團評估之評等。若集團成員展現出能與收入或保費成長速度一致之方式來增加資本，則有助於達到本指導原則。

理論上雖未對集團評估與獨立評估間級距加以設限，但是集團成員之評等高出集團評估一到三個級距是極為罕見之情況。惠譽會判斷調整級距之程度。

若是有提供給惠譽，則會檢討管理層級之結構性保護措施，以限制集團自集團成員取得資本及其他財務資源之能力。但在本標準報告下，這些僅會被視為資訊，不會影響調整級距之程度或惠譽要給予高於集團評估之評等之決定。惠譽認同，在巨大壓力下，可能多數結構性保護措施會反轉（集團控制著全資集團成員之董事會），讓它們在最需要時有著最小之價值。

H. 新興市場中之支持

國際保險集團涉足新興市場，代表在運用集團評等方法時出現特殊挑戰。儘管這些集團在開發中國家具備重要地位，但在給予新興市場子公司評等時必須考量多項風險因素，包括與下述相關之問題：

- 在整體集團內相對較小之規模
- 在當地市場內通常規模不大
- 在新興市場內成長對整體集團策略之相對重要性
- 法令問題或政府介入限制集團支持能力或意願之可能性

過去在阿根廷與委內瑞拉所發生主權壓力和政府介入之情況，突顯出在新興市場中參見集團優勢之難處。思考這些問題，以及規模相關限制、策略重要性和地理隔離性，多數在當地經營之國際保險業者不會被視為核心。同樣地，相較於已開發市場，其非常重要和重要保險業者也較少。執行支持協議之限制（即使被視為是正式）亦會限制提升評等。

分配國際評等給低主權評等國家中之個體，會對集團評等方法加諸較多限制，並經由國家信用限額對評等設限（請見 www.fitchratings.com 網站上之《國家信用限額》報告以取得更多資訊）。無論支持之力道為何，地方子公司都極不可能取得集團評估。

主權持有個體之個案

如同其他母公司／子公司間之關係，這些標準底下之原則可用於主權持有之保險公司（國有企業）。雖然在大多數之個案中，惠譽並不會視主權持有之情況為一項策略而採用獨立方法來評等國有企業（SOE），但在某些情況下，主權持有之情況可保證參照優勢。

在評等 國有企業 時參照主權優勢，尤以開發中市場最為顯著，其政府會支持保險公司以可負擔之價格確保市場容量，或是確保整體經濟穩定性。在這些情況下，國有企業 會被視為核心、非常重要或重要，且依獨立評估與主權評等間之關係來建立信用評等。

在從調降主權評等級距取得 國有企業 評等之情況下，會將主權之本國貨幣（LC）發行機構違約評等 作為建立 國有企業 之 本國貨幣 發行機構違約評等 評等之起點，而主權之外幣（外幣）發行機構違約評等 則作為建立 國有企業 之外幣發行機構違約評等 評等之起點，依惠譽之一般方法，依保單持有人債務之原假設從 發行機構違約評等 調整級距至本國貨幣或外幣保險公司財務實力 評等，另採用任何適用之國家信用限額。

最後，本標準關於 國有企業之內容不適用於政府暫時支持和相關持有之情況（例如透過救濟），而是期望有長久之持有關係。

I. 情況應用集團評等標準之步驟

步驟 1 – 發展集團評估

合併財務資訊分析及（或）合併子公司之分析內容，以發展集團評估（GA）。支持本基礎信用分析之標準請參閱本報告之*單元 I*。

步驟 2 – 評估策略評等（支持意願）

使用本報告第 58–59 頁中之內容對各保險公司進行評等，分類為：核心（C）、非常重要（VI）、重要（I）或有限重要性（LI）。

步驟 3 – 檢討支持協議（支持意願）

若可能，檢討任何支持協議並依本報告第 57 頁中之內容分類為正式（FS）或非正式（IS）。

若為正式（FS），則會在步驟 7 中之提高評等產生正向影響。

步驟 4 – 根據財務實力之門檻（支持能力）

若步驟 1 中之集團評估低於「A−」，思考這是否會限制集團之支持能力。在某些情況下，會依第 62 頁之註釋使用高於或低於「A−」之評等。.

如有財務實力門檻（FB），這會對步驟 7 中之提高評等產生負向影響。

步驟 5 – 外部門檻（支持能力）

依本報告第 62–63 頁檢討，是否有任何監管、法令或其他外部門檻會嚴重影響集團視需要調動資本進行支持之能力。

若有外部門檻（EB）且達嚴重程度，則使用獨立方法（SA-Ap）和獨立評估（SAA）措施，除非備有 FS 協議。若有 FS，則使用步驟 7 來判斷其影響性。

若對 EBs 有疑慮，但不保證 SA-Ap，則仍會對步驟 7 中之提高評等產生負向影響。

步驟 6 – 發展獨立評估

若認為有用，則為集團成員發展 SAA。依第 64 頁之內容，通常僅在特定環境中發展 SAA。請見本報告*單元 I*，以瞭解用以支持發展 SAA 之基礎信用分析之標準。

步驟 7 – 指導原則

運用本標準報告內討論之支持能力與意願之概念來判斷評等。以下指導原則係用以提出該判斷。這些指導原則不應視為死板之「規定」。

I. 情況應用集團評等標準之步驟（續）

備註：指導原則展現一般最高可取得之評等。

部分 A－ 若為核心（C）、非常重要（VI）或重要（I）

策略評等	一般評等方法	GA 到 SAA 之級距數為何？	一開始相對於 GA 之最高評等為何？	有 FS 之話最高評等為何？	對 FB 及（或）EB?（相對於 SAA）若有疑慮，有其他限制嗎？
C	G-Ap	0−2[a]	GA	GA	無上限
	GA	3−5	GA	GA	3 以上
	GA	6+	GA	GA	4 以上
VI	PA-Ap	0−2	GA	GA	無上限
		3−5	1 以下	GA	2 以上
		6+	3 以下	GA	3 以上
I	PA-Ap	0−2	GA	GA	無上限
		3−5	2 以下	GA	1 以上
		6 +	4 以下	GA	2 以上

[a] 在許多核心子公司之個案中無獨立評估，於此情況時，便運用這一列。

部分 B － 若為有限重要性（LI）

		若有正式支持（FS）協議，調高評等之上限為何？	
GA 到 SAA 之級距數為何?	一般評等?	若無 FB（從 GA 降級）	若有 FB（從 SAA 升級）
0−2	SAA	GA	GA
3−5	SAA	1 以下	2 以上
6+	SAA	2 以下	3 以上

最後一個步驟 －僅在回收率出現差異時使用

若是預期多個集團成員在無償付能力方面有著不同之回收率情況，則需依*單元 VI* 中之級距標準，相對於集團 發行機構違約評等 評等調整其 保險公司財務實力 評等之級距。

說明

評估評等
GA－ 集團評估
SAA－獨立評估

支持協議評等
FS－ 正式支持
IS－ 非正式支持

對支持之門檻
FB－ 財務實力門檻
B－ 外部門檻

策略評等
C－ 核心
VI－ 非常重要
I－ 重要
LI－ 有限重要性

評等方法
SA-Ap－獨立方法
PA-Ap－ 部分屬性方法
G-Ap－ 集團方法

VI. 級距：債務、混合型證券與持股公司

A. 級距 — 概要

「級距」之概念係指，相對於已訂定之「錨點評等」，使用與特定取得級距之評等特點有關之指導原則建立特定評等之實踐內容。根據保險標準之目之，級距涉及：

- 保險公司財務實力 評等 – 初始錨點：通常級距流程中之第一步是建立經營公司之 保險公司財務實力 評等為初始錨點評等。而後從 保險公司財務實力 評等取得經營公司 發行機構違約評等 之級距。
- 持股公司 – 經營公司：級距思考經營公司之 發行機構違約評等 與of an(ies)持股母公司 發行機構違約評等 之間之關係，於此情況時，經營公司之 發行機構違約評等 為錨點評等。
- 債務／混合型證券評等 發行機構違約評等：級距會思考債務評等與混合型證券工具相對於發行人 發行機構違約評等 之關係，無論保險經營公司或持股公司為何。個別之 發行機構違約評等 可作為錨點。

多種債務與混合型證券債務之級距，主要以違約事件中假設之債務相對回收率性為基礎。回收率能力較高之債務會從 發行機構違約評等 調高級距，而回收率較低之債務則從 發行機構違約評等 調低級距。風險相關特點亦會影響混合型證券之級距作業，使得混合型證券在公司發生較大規模違約前即表現不佳。

下表為一般相對於 發行機構違約評等 之債務評等級距內容（僅回收率）。

表 VI-1：一般相對於 發行機構違約評等 之級距（僅回收率）

	級距程度	
回收率前景	投資級別	非投資級別
傑出	+2	+3（有擔保）、+2（無擔保）
優秀	+1	+2
良好	+1	+1
平均	0	0
低於平均	–1	–1
不佳	–2	–2 或 –3

發行機構違約評等 – 發行機構違約評等
資料來源：惠譽.

在運用上述指導原則時，惠譽常會對不同評等和 發行機構違約評等s 為「BB–」以上之發行人之保險債務類型使用基線回收率假設。第 80 頁之表 VI-3 內即說明了這些回收率假設。若保險個體有限制地運用有擔保債務，則上述「良好」到「不佳」之回收率評等最為適用於保險業。

對於低於「BB−」之 發行機構違約評等s，惠譽計畫發展特別量身打造之回收率預估內容，且可能分配「回收率評等1」到「回收率評等6」之回收率評等（回收率評等）。*在單元 IX* 中說明了支持量身打造回收率分析和分配 回收率評等s 之方法。於第 85 頁中說明較低非投資級 發行機構違約評等s 與不良債務之級距指導原則。

本*單元 VI* 之其餘部分說明了支持保險業級距之假設和方法。

全球系統上為重要之保險業者

從級距之觀點來看，惠譽目前在個別之司法管轄範圍中未對 G-SIIs（或 SIFIs）與非 G-SIIs 採取差別待遇，但惠譽期望，長期下來用於 G-SIIs 之監管標準與解決制度會更明朗。若是在某個時間點，惠譽認為用於 G-SIIs 之監管措施與對我們之級距假設擁有重要性之關鍵區域有所出入，惠譽即會更新其標準。

保險公司財務實力 評等作為錨點／經營公司 發行機構違約評等

經營公司之 保險公司財務實力 評等在級距流程中係作為初始錨點評等。主要使用這些標準*單元 I* 中討論之關鍵評等因素來建立保險公司財務實力 評等。

保險公司財務實力 評等一般假設回收率情況為「良好」。在此最常見之個案中，經營公司之 發行機構違約評等 會從 保險公司財務實力 評等調低一個級距。發行機構違約評等 代表「回收率中立」，符合「平均」回收率之假設。

單元 VI-E. 係討論 FS 評等之回收率假設非良好時之其他指導原則。

B. 規定之一般影響性

規定之形式在這些級距標準中建立起一個理論基礎，惠譽將規定分類為「集團償付能力」、「圍欄限制」或「其他」。

當符合兩項廣泛之條件時，即假設存在集團償付能力規定：

- 在保險經營公司與整併集團持股層級提出健全之資本需求，擁有可保障保單持有人利益之法令和規定。
- 備有集團監管機關及（或）監管協會制度，以協助遇到困難之集團解決問題，且期望重要集團成員與地方監管機關參與。無重要集團成員（含持股公司）具備明確之破產保障法定能力，或是其他法定補救措施，讓它能置身於集團監管機關之決議權外。

監管意圖深根於從根本上將保險經營公司隔離於其他集團成員（含持股公司與非保險關係企業）之風險外，以保障保單持有人利益，因此在這些標準下假設存在著圍欄限制規定。通常會合併以下內容以取得此類圍欄限制：

- 在個別經營公司層級提出健全資本和其他標準。
- 透過限制性財務方案管制從經營保險公司到集團關係企業／股東之資本或資金流，要求監管機關或其他方式事先核准。

圍欄限制措施雖著重於將經營公司與其他集團風險區隔開來，但監管機關通常仍有權監督非保險之風險。

實際上，部分監管制度會共用集團償付能力與圍欄限制之因素，集團償付能力這個概念相當新，且圍欄限制常會造成較保守之結果，若惠譽有疑問時，會較偏向圍欄限制評等。

當償付能力制度之規模受到限制時，會使用「其他」這個監管評等，在某些離岸地點或開發中市場是最常見之情況。

持股公司流動性與級距

通常，惠譽為了帶有大量現金（含高流動性、優質、非附屬投資資產）之持股公司，而不會在圍欄限制環境中加入級距。依這些標準之*單元 I-H*，在評等中將持股公司流動性視為財務彈性評估之一部分。

但在持股公司長期持有大量現金之例外情況下，惠譽會納入持股公司級距。惠譽會查看以下內容：

- 持股公司之現金在過去五年之每一年中，超過持股公司債務／混合型證券債務之 75%。
- 管理層級已表明至少在中期維持如此大量持股公司現金之意圖（即未打算使用資金合併和收購活動或重購股票）。
- 保險公司財務實力 評等為「A」或較高評等。

C. 保險公司對持股公司之級距

依兩個個體間所認知之違約風險差異，在保險經營公司 發行機構違約評等 與持股母公司 發行機構違約評等 間調整級距。所採用之監管風格會大幅影響此評估，如下：

- 集團償付能力規定會讓惠譽假設經營與持股公司層之核心集團成員分享相同違約或破產風險，造成個體 發行機構違約評等s 間進行最小或未調整級距。
- 圍欄限制會導致經營公司與持股公司之違約或破產風險生變，造成更廣泛使用 發行機構違約評等 級距之假設。

無級距係用於其他監管環境，但評等層級整體會低於有較健全規定之環境。

監管協會之概念相當新穎，全球保險集團不明白如何使用集團償付能力這項措施。惠譽認為，在全球化之背景下，在許多個案中，地方監管機關最終會對各地保單持有人之最佳利益採取行動，即使此舉對集團整體而言有害無益。因此在某些情況中會採用圍欄限制假設。

實際上，對於有 30% 以上之盈餘或資本來自於預期要進行圍欄限制之國家（即便在地方採用集團償付能力措施）之全球集團而言，一般會調低級距。惠譽最有可能對僅在歐盟內經營之集團假設跨國集團償付能力。

表 VI-2：發行機構違約評等 級距指導原則 — 保險公司到持股公司

	監管環境		
	圍欄限制	集團償付能力[a]	其他
投資級別	–1	0	0
非投資級別	–2	–1	–1

[a] 若海外子公司構成 30% 以上之盈餘／資本來源，則會採用圍欄限制。
資料來源：惠譽評等

財務槓桿與保障範圍調整

針對圍欄限制環境，有其他因素會影響持股公司之級距：

- 財務槓桿程度
- 固定費用保障

對於大型發行債務之組織，惠譽視 16%–30% 範圍內之財務槓桿率（財務槓桿比率，即債務對資本）為保險業之常態。在圍欄限制環境中，低於此水準之槓桿會使得惠譽將 發行機構違約評等 級距調降一個級距（亦即，提高持股公司之 發行機構違約評等）。同樣地，高於 30% 之 財務槓桿比率 則會使得惠譽加大一個級距（亦即，降低持股公司之 發行機構違約評等）。

穩健或不足之固定費用保障亦會在圍欄限制環境中影響相對違約風險和級距。惠譽對於 16%–30% 範圍中之 財務槓桿比率，會將高於 12 倍之水準視為異常有利之保障範圍，而低於 3 倍之水準則視為異常不利之保障範圍。惠譽會考量對異常有利或不利之固定費用保障，緊縮或加大 發行機構違約評等 級距。

除了在圍欄限制環境中加大或縮小級距，尤其是在財務槓桿或保障範圍中有著龐大差異，亦會同時移動所有經營和持股公司之評等。當惠譽認為提出之槓桿或保障範圍差異對經營公司 保險公司財務實力 評等（作為初始錨點）擁有重要性時，就會發生這個情況。對經營公司 保險公司財務實力 評等會造成正向或負向之影響。在圍欄限制環境中，此類差異會對經營公司 保險公司財務實力 評等造成相當大之影響力，與要調整之持股公司級距相反。

在集團償付能力環境中，當經營與持股公司之 發行機構違約評等s 相符時，則槓桿與保障範圍之差異不會影響級距，但由於 保險公司財務實力 評等即使對些許之差異也很敏感，因此相較於受圍欄限制之環境，槓桿與保障範圍會對經營公司 保險公司財務實力 評等有較更大之權重。

請參閱*單元 I-H* 非壽險與壽險保險業者評等評等之中位數保障範圍率。

有擔保債務

身為投資級產業之保險業極少使用有擔保債務，有擔保債務是投資級以下發行人最常用之工具。

若投資級（或高非投資級）發行人使用有擔保債務，則惠譽會採用訂製分析方式來判斷回收率假設（與*單元 IX* 內討論之內容相似，但較不深入）。但除非發行機構違約評等 低於「BB−」，否則不會公布回收率評等。

此外，若有擔保債務數量龐大且會對大部分違約後資產有著首次理賠，則惠譽會對較低順位之證券使用較右側所示較低之基線回收率假設。

D. 相對於 發行機構違約評等 債務與混合型證券之級距

回收率假設

先依違約事件中對各債務發行／債務期望之回收率，以取得相對於發行個體（持股公司或保險經營公司）發行機構違約評等 之特別發行評等級距。當發行機構違約評等 為「BB−」以上時，是依據下表所顯示之基線假設和低於「BB−」之 發行機構違約評等 s 特別訂製之 回收率評等 s。

表 VI-3：基線保險回收率假設

	監管評估		
債務類型	**圍欄限制**	**集團償付能力**	**其他**
保險公司			
無擔保優先債務	平均	平均	平均或低於平均
次級	低於平均	低於平均	低於平均或不佳
深次級	不佳	不佳	不佳
持股公司			
無擔保優先債務	低於平均	低於平均	低於平均或不佳
次級	不佳	不佳	不佳
深次級	不佳	不佳	不佳

資料來源：惠譽評等

惠譽一般會假設特定發行人之所有債務發行有著相同之違約風險，這反映在發行人之 發行機構違約評等 中。多種發行中之相對回收率係依其法定年資排行來訂定級距。

- 那些有著平均回收率前景（惠譽訂定為 31%−50%）之債務工具或債務之評等會與 發行機構違約評等 一致。
- 投資級別中之高回收率有擔保債務之評等可高於 發行機構違約評等 兩個級距，而非投資級別則可高於三個級距（上限為「BBB−」）。
- 依違時（非投資級別）所期望之不佳回收率情況，最弱回收率前景之債務評等可低於 發行機構違約評等 最多三個級距。
- 有著顯著不履行特點之混合型證券，藉由回收率便可讓級距低於意指之內容。

對於特定回收率期望，當評等上升和下降時，其相對於 發行機構違約評等 之級距程度會更為緊縮，以對低投資級評等提升回收率加權，且能更加強調投資級評等之違約可能性。請參閱表 VI-1 以取得更多資訊。

優先債務回收率與級距

通常，惠譽對持股公司會假設其無擔保優先債務回收率低於平均水準，而對保險經營公司則是假設無擔保優先債務回收率為平均。對於持股公司較具懲罰性之假設反映在假設比起經營公司之債務，持股公司之債務為較深之有效次級債務。

其原因在於，破產之保險子公司之持股公司用來支持回收率之資金，可能限於持股公司層級之資產或其他非保險子公司之資金。在某些情況下，這個情形之確十分明顯，但惠譽認為，在絕大多數之場合中其實是相當一般之情況。

銀行保險業回收率假設

惠譽對於有著銀行保險業之市場，會對多種保險經營與持股公司之債務採用保險回收率假設。但是，在例外情況下，評等委員會會決定對銀行保險業集團中保險持股公司之債務與混合型證券債務使用銀行般之回收率假設。若是委員會覺得持股公司會受限於銀行般之決定時，便會這麼做。銀行般之回收率假設很少會用在保險經營公司層級上。

下表說明在投資級 發行機構違約評等 相對於保險公司無擔保優先債務 發行機構違約評等 之級距：

表 VI-4：優先債務 – 一般投資級級距

	監管環境		
發行人類型	圍欄限制	集團償付能力	其他
保險公司			
基線回收率	平均	平均	平均或低於平均
相對於 發行機構違約評等 之級距	0	0	0 或 –1
持股公司			
基線回收率	低於平均	低於平均	不佳
相對於 發行機構違約評等 之級距	–1	–1	–2

資料來源：惠譽評等

次級債務回收率與級距

純次級債務工具（亦即，無非績效特點者）與優先債務一樣，係依其基線回收率假設設定相對於 發行機構違約評等 之級距。

在經營公司層級，惠譽係假設發生違約事件時之次級債務為低 – 平均回收率。在持股公司層級，惠譽仍然期望相同之低回收率優先債務，因此假設次級債務有著較低水準之回收率程度，達到不佳之水準。下述純次級債務之級距：

表 VI-5：次級債務[a] – 一般投資級級距

	監管環境		
發行人類型	圍欄限制	集團償付能力	其他
保險公司			
基線回收率	低於平均	低於平均	低於平均或不佳
相對於 發行機構違約評等 之級距	–1	–1	–1 或 –2
持股公司			
基線回收率	不佳	不佳	不佳
相對於 發行機構違約評等 之級距	–2	–2	–2

[a] 上表說明無不履行特點之次級債務。在混合型證券級距之內容中介紹了擁有不履行特點之次級債務。
資料來源：惠譽評等

混合型證券級距

混合型證券級距分為兩個步驟：

- 先依表 VI-5 之回收率期望建立級距。
- 對於出現債券遞延／不履行、本金降值或應急轉換等不履行特點之混合型證券則是額外給予級距。

對比於依表 VI-5 可能之排名／回收率債務級距，若出現不履行特點時，會讓惠譽另外從發行人之 發行機構違約評等 調降混合型證券一到多個級距。通常，若是認為較易於啟動特點，則額外調整之級距幅度會較大。

一般認為較不可能觸發管理層級認為之混合型證券特點，卻認為根據監管機關之判斷或保守之財務量表且無其他限制而強制觸發者，更有可能觸發。

美國之盈餘票據與日本之 Kikin

假設低於平均回收率（1 級距）與最小不履行風險（0 級距），則會從保險公司之 發行機構違約評等 對美國保險公司發行之盈餘票據與日本保險公司發行之 kikin 調低一個級距。除非是在相對龐大之壓力下，否則監管機關過去會對這些工具實施遞延一事有所準備金。

但若保險公司之財務槓桿率（視盈餘票據或 kikin 為債務）超過 15%，於此情況時，假設遞延風險會升高到溫和評等，則會調低盈餘票據或 kikin 兩個級距。

在使用集團償付能力措施之司法管轄範圍中，且根據其不履行特點可能在法定資本納入混合型證券，較常會見到監管機構對混合型證券特點有所判斷。而在發行混合型證券之美國持股公司等圍欄限制環境中則較不常見。

惠譽之不履行級距保險標準取自於《*全球銀行評等標準*》銀行標準報告（2015年3月）之*單元 IV-2.3*。讀者應該也對銀行報告中所述之單元相當熟悉，這些保險標準中皆參照了它之資料，且更深入地說明多項概念。

不履行風險分類為三個評等，如下：

- 最小：例如，當強制觸發與符合監管機構介入之資本比率水準有關時，在公司破產或違約之際，混合型證券特點才會觸發。在多數情況下，會留給公司（無監管機關期望觸發之壓力）自行判斷是否使用遞延等觸發及／或有著回顧特點等極為複雜之觸發會令人質疑其觸發能力。
- 溫和：用於最小與高之間之情況。
- 高：期望在破產前觸發混合型證券特點，且認為監管機關對於觸發有著顯著之影響力，若是環境許可，惠譽期望能發揮此影響力。在某些情況下，會授予監管機關對觸發擁有合約裁量權，但通常在混合型證券條款內並無明確之監管權，而是期望監管機關對公司施加龐大壓力，例如延遲債券，且混合型證券無阻礙遞延之特點。這些對監管機構行為之期望常具備了高度批判性，且會隨著司法管轄範圍、發行人及特定發行人之混合型證券工具而改變。另一個例子是高於監管最小水準、與「緩衝」資本比率水準有關之觸發，僅略低於被視為非常安全目標的水準。

下表說明用於不履行風險之額外級距程度。

表 VI-6 — 混合型證券不履行風險級距

風險水準	額外級距	範例
最小	0 或 1[a]	許多舊有之混合型證券、Solvency II 三級混合型證券，以及有著回顧特點、較弱勢之二級混合型證券。資本率觸發因子包括 100% 之 Solvency I 率、100% 之 Solvency II MCR、100% 之美國 NAIC RBC 可用資本L、120% 之加拿大 最低持續資本及盈餘要求 及 200% 之日本 SMR。
溫和	1 或 2[a]	較強勢之 Solvency II 二級混合型證券，像是有著強制觸發因子相當保守，但有著某些限制之證券，例如 100% 之 Solvency II SCR、150% 之美國 NAIC RBC 可用資本L 及 150% 之加拿大 最低持續資本及盈餘要求 等資本觸發因子。
高	3 以上	極為容易觸發之 Solvency II 一級混合型證券，例如完整債券判斷力（且期望監管壓力），或高於監管最低值且無其他限制之資本率觸發因子。

[a] 針對最小使用 0 作為集團償付能力環境中之基線，1 作為圍欄限制環境之基線；對於溫和，1 是集團償付能力之基線，2 是圍欄限制之基線。備註：由於根據「30% 外資／盈餘」指導原則將圍欄限制用於持股公司級距，因此依混合型證券發行人之國家來訂定監管環境，且在採用集團償付能力之國家中將集團償付能力作為混合型證券級距。MCR – 最小資本需求。可用資本L – 授權控制水準。最低持續資本及盈餘要求 – 最低繼續資本與盈餘需求。SMR – 清償邊際率。SCR – 償付能力資本要求。
資料來源：惠譽評等

保險公司財務實力 回收率假設

根據惠譽認為規定擁有效果、監管機關在不良情境下會及早介入讓資產留在企業層面，假設 保險公司財務實力 回收率為良好。因此，無論是否能承擔優先性，最大、最顯著之保單持有人或再保險債務，皆會在企業整體層面占有大量之回收率。

與 保險公司財務實力 保單持有人債務相連之回收率期望並不考量保單持有人從監管擔保基金取得回收率，僅反映從保險或再保險公司本身資產之回收率能力。同樣地，也不考量從證券條款取得之回收率能力，而是將再保險餘額抵押至特定非附屬分保公司一事。

E. 「其他」監管環境：保險公司財務實力／發行機構違約評等 級距

如上所述，當規定視為有效時（分類為集團償付能力或圍欄限制），惠譽會對 保險公司財務實力 評等採用「良好」之回收率假設，且從 保險公司財務實力 評等將 發行機構違約評等 調低一個級距。但當監管之分類為「其他」時，則會影響到 保險公司財務實力 評等水準和經營公司 發行機構違約評等 之級距。

監管環境愈弱，保險公司財務實力 回收率假設愈低，也將會得到較低之 保險公司財務實力 評等。在所有其他條件相同之情況下，會平均回收率假設調低 保險公司財務實力 一個級距、對低於平均回收率調低兩個級距，且對不佳回收率調低三個級距。若是認為弱勢之監管會影響保險業者超越回收率之財務實力，那麼，調低之作用亦會愈大。

惠譽之跨產業標準報告《*國家回收率評等具體處理方式*（2013年6月）》也對與回收率假設有關之 保險公司財務實力 評等水準擁有關聯性。本報告討論了在信用保障執行力受限或可疑之司法管轄範圍中可對回收率假設施加之上限。

監管分類為「其他」亦會影響經營公司 發行機構違約評等 之級距，如下（發行機構違約評等 為「回收率中立」，配合平均之回收率假設）。

表 VI-7a：經營公司 發行機構違約評等 評等級距 – 針對「其他」之監管環境

	保險公司財務實力 評等之回收率假設		
	平均	低於平均	不佳
發行機構違約評等 相對於 保險公司財務實力	0	+1	+2

發行機構違約評等 – 發行機構違約評等。保險公司財務實力 – 保險財務實力。
資料來源：惠譽評等

F. 主權限制影響

用於錨點評等（通常是經營公司 保險公司財務實力 評等）之級距實施內容假設無主權限制。取而代之之，若是適用主權限制（或國家信用限額）（請見*單元 I-B*），則會在評等流程中作為最後一個步驟。

例如，假設惠譽採用「A–」之主權限制。另外對特定發行人假設未設限之本國貨幣經營公司 保險公司財務實力 評等為「A+」。同時也依 保險公司財務實力 之良好回收率、集團償付能力下之持股公司 發行機構違約評等、根據低於平均回收率之持股公司無擔保優先債務評等，以及運用不佳回收率與溫和（兩個級距）不履行假設取得持股公司混合型證券評等，假設級距實施之目標為建立經營公司 發行機構違約評等 評等。

下表說明這兩個步驟。

表 VI-7b：兩步驟級距流程／主權限制範例

評等類型（級距）	步驟 1 未設限	步驟 2 運用限制
保險公司財務實力 評等（錨點）	A+	A–
經營公司 發行機構違約評等（–1）	A	A–
持股公司 發行機構違約評等（0）	A	A–
無擔保優先（–1）	A–	A–
混合型證券（–4）	BBB–	BBB–

發行機構違約評等 – 發行機構違約評等。
資料來源：惠譽評等

上圖僅用於主權限制或國家信用限額作為評等流程最後一個步驟之情況，其中因任何特定信用因素無法完全找出主權或國家風險。最常見之是惠譽認為保險公司一般環境之風險即將或已經升高，應限制評等，但要如何表明那些風險之方式尚不明朗。將國家信用限額用於反映一般移轉和可轉換性風險時也很常見。

在適用之信用因素內完整找出主權或國家相關風險，會直接反映在錨點 保險公司財務實力 評等中，於此情況時，會使用相對於該錨點評等之正常級距，而不會形成如*表 VI-7b* 所示之壓縮評等。

G. 不良與低評等債務級距

惠譽採用下表之指導原則來分配發行評等為違約及不良債務發行，以及執行「B+」及以下評等債務。

依惠譽之方法，違約債務之發行評等是根據分配給發行之 回收率評等（請見*單元 IX*），例如查看「RD」及「D」發行機構違約評等 之列，擁有「回收率評等2」之 回收率評等 之違約債務發行會得到「CCC」之評等，而具著「回收率評等3」之違約發行之評等則為「CC」。

可以見到之是，投機級最低端之債務工具級距會被壓縮。分配給發行人已違約或是極為接近違約之債券之債務工具，顯示「回收率評等4」與「回收率評等6」回收率間並無巨大差別。

於此情況時，除工具評等，讀者最好能參閱已公布之 回收率評等，就像是評等為「C」之工具將違約，這指 50%（若評等為「C／回收率評等 4」）與 100%（若評等為「C／回收率評等 6」）間期望發生之損失。

表 VI-8：「B」及以下 發行機構違約評等／債務工具對照

	不良與違約債券							
發行機構違約評等	**B+**	**B**	**B–**	**CCC**	**CC**	**C**	**RD**	**D**
回收率評等1	BB+	BB	BB–	B+	B	B–	B–	B–
回收率評等2	BB	BB–	B+	B	B–	CCC	CCC	CCC
回收率評等3	BB–	B+	B	B–	CCC	CC	CC	CC
回收率評等4	B+	B	B–	CCC	CC	C	C	C
回收率評等5	B	B–	CCC	CC	C	C	C	C
回收率評等6	B–／CCC	CCC／CC	CC／C	C	C	C	C	C

發行機構違約評等 – 發行機構違約評等。
資料來源：惠譽評等。

H. 監管分類假設情況

表 VI-9：監管分類情況

（以下適用於主要保險業者及再保險業者，通常不含自保公司）

國家	分類[a]
澳洲	集團償付能力
巴貝多	其他
白俄羅斯	其他
百慕達	集團償付能力
巴西	圍欄限制
加拿大	圍欄限制／集團償付能力[b]
開曼群島	圍欄限制[c]
智利e	圍欄限制
中國	集團償付能力
哥倫比亞	圍欄限制
哥斯大黎加	圍欄限制
多明尼加共和國	其他
薩爾瓦多	其他
歐洲經濟區	集團償付能力
瓜地馬拉	其他
宏都拉斯	其他
香港	圍欄限制
印尼	圍欄限制
日本	集團償付能力
哈薩克	其他
馬來西亞	圍欄限制[c]
模里西斯	圍欄限制
墨西哥	圍欄限制
紐西蘭	圍欄限制
尼加拉瓜	其他
巴拿馬	其他
秘魯	圍欄限制
俄羅斯	其他
新加坡	圍欄限制[d]
南非	集團償付能力
南韓	圍欄限制
斯里蘭卡	圍欄限制
瑞士	集團償付能力
台灣	集團償付能力
泰國	圍欄限制
美國	圍欄限制
委內瑞拉	其他

a 從其他級距標準之角度來看，這些顯示之監管分類才擁有相關性。與其他干預內容無關。部分司法管轄範圍具備「圍欄限制」及「集團償付能力」因素之特點。於此情況時，惠譽依對惠譽一般級距原則最重要之因素來設定分類[b]。加拿大並未正式規範持股公司，不過，過去有多家最大之共同壽險業者註冊持股公司，而部分股票公司有與監管機關簽定協議，以建立一些加強版之直接持股公司法規，因此加拿大採用之監管分配內容會因環境而對各公司採取不同之內容[c]。依開曼群島之規定僅用於 Class D 再保險業者。所有其他評等為其他[d]。若期望分別於2018年和2017年，於馬來西亞和新加坡之保險法規中對母公司／持股公司層級執行較高之資本標準，屆時國家監管分類將可能變更為集團償付能力。在那之前，評等委員會會依監管機關在整併後母公司／持股公司層級對特定集團提出之特定資本標準本質所提供之圍欄限制或集團償付能力假設，視各集團決定級距。
資料來源：惠譽評等

I. 級距範例

次頁之表格說明在圍欄限制與集團償付能力監管制度內級距之運作方式。

- 包括四個債務發行案例：未發行債務、持股公司發行債務、經營公司發行債務，以及經營與持股公司發行債務。
- 在投資級別顯示四個案例，假設保險經營公司之錨點 保險公司財務實力 評等為「A+」，且在非投資級別使用「BB+」保險公司財務實力 評等。

在這四個案例中，保險公司財務實力 評等假設回收率為良好，並因此從 保險公司財務實力 評等將經營公司 發行機構違約評等 調低一個級距。相對於經營公司之 發行機構違約評等 顯示所有其他級距量（即 –1 或 –2）。在所有案例中，惠譽假設財務槓桿與固定費用保障之平均水準，而這些特點並不會影響級距。

無擔保優先與次級債務顯示為無遞延或其他虧損吸收特點之純債務。因此，僅假設之回收率水準影響所顯示之級距。

僅對最小和高不履行分類顯示混合型證券。

表 VI-10：級距範例

I. 圍欄限制環境：

	IG 案例		非 IG 案例	
1. 保險經營公司未發行債務				
保險公司財務實力 評等（良好）	A+	—	BB+	—
經營公司之 發行機構違約評等	A	（–1）	BB	（–1）
2. 持股公司發行債務				
保險經營公司				
保險公司財務實力 評等（良好）	A+	—	BB+	—
經營公司之 發行機構違約評等	A	（–1）	BB	–1）
持股公司				
持股公司之 發行機構違約評等	A–	（–1）	B+	（–2）
無擔保優先（低於平均）	BBB+	（–2）	B	（–3）
次級債務（不佳）	BBB	（–3）	B–／CCC+	（–4 至 –5）
混合型證券 — 最小不履行風險（不佳）	BBB／BBB–	（–3 至 –4）	B– 至 CCC	（–4 至 –6）
混合型證券 — 高不履行風險（不佳）	BB	（–6 +）	CCC–／CC	（–7 至 –8 +）
3. 保險公司發行債務				
保險經營公司				
保險公司財務實力 評等（良好）	A+	—	BB+	—
經營公司之 發行機構違約評等	A	（–1）	BB	（–1）
無擔保優先（平均）	A	0	BB	0
次級債務（低於平均）	A–	（–1）	BB–	（–1）
混合型證券 — 最小不履行風險（不佳）	BBB+／BBB	（–2 至 –3）	B+ 至 B–	（–2 至 –4）
混合型證券 — 高不履行風險（不佳）	BB+	（–5 +）	CCC+／CCC	（–5 至 –6 +）
4. 保險公司與持股公司發行債務				
保險經營公司				
保險公司財務實力 評等（良好）	A+	—	BB+	—
經營公司之 發行機構違約評等	A	（–1）	BB	（–1）
無擔保優先（平均）	A	0	BB	0
次級債務（低於平均）	A–	（–1）	BB–	（–1）
混合型證券 — 最小不履行風險（不佳）	BBB+／BBB	（–2 或 –3）	B+ 至 B–	（–2 至 –4）
混合型證券 — 高不履行風險（不佳）	BB+	（–5 +）	CCC+／CCC	（–5 至 –6+）
持股公司				
持股公司之 發行機構違約評等	A–	（–1）	B+	（–2）
無擔保優先（低於平均）	BBB+	（–2）	B	（–3）
次級債務（不佳）	BBB	（–3）	B–／CCC+	（–4 or –5）
混合型證券 — 最小不履行風險（不佳）	BBB／BBB–	（–3 或 –4）	B– 至 CCC	（–4 至 –6）
混合型證券 — 高不履行風險（不佳）	BB	（–6 +）	CCC–／CC	（–7 至 –8+）

保險公司財務實力 – 保險業者財務實力。發行機構違約評等 – 發行機構違約評等。IG – 投資級別。非 IG – 非投資級別。
續參閱次頁。
資料來源：惠譽評等

表 VI-10：級距範例（續）

II. 集團償付能力環境：

	IG 案例		非 IG 案例	
1. 未發行債務				
保險經營公司				
保險公司財務實力 評等（良好）	A+	—	BB+	—
經營公司之 發行機構違約評等	A	（–1）	BB	（–1）
2. 持股公司發行債務				
保險經營公司				
保險公司財務實力 評等（良好）	A+	—	BB+	—
經營公司之 發行機構違約評等	A	（–1）	BB	（–1）
持股公司				
持股公司之 發行機構違約評等	A	（0）	BB–	（–1）
無擔保優先（低於平均）	A–	（–1）	B+	（–2）
次級債務（不佳）	BBB+	（–2）	B／B–	（–3 至 –4）
混合型證券 — 最小不履行風險（不佳）	BBB+／BBB	（–2 至 –3）	B 至 CCC+	（–3 至 –5）
混合型證券 — 高不履行風險（不佳）	BB+	（–5 +）	CCC／CCC–	（–6 至 –7+）
3. 保險公司發行債務				
保險經營公司				
保險公司財務實力 評等（良好）	A+	—	BB+	—
經營公司之 發行機構違約評等	A	（–1）	BB	（–1）
無擔保優先（平均）	A	0	BB	0
次級債務（低於平均）	A–	（–1）	BB–	（–1）
混合型證券 — 最小不履行風險（不佳）	BBB+／BBB	（–2 至 –3）	B+ 至 B–	（–2 至 –4）
混合型證券 — 高不履行風險（不佳）	BB+	（–5 +）	CCC+／CCC	（–5 至 –6+）
4. 保險公司與持股公司發行債務				
保險經營公司				
保險公司財務實力 評等（良好）	A+	—	BB+	—
經營公司之 發行機構違約評等	A	（–1）	BB	（–1）
無擔保優先（平均）	A	0	BB	0
次級債務（低於平均）	A–	（–1）	BB–	（–1）
混合型證券 — 最小不履行風險（不佳）	BBB+／BBB	（–2 或 –3）	B+ 至 B–	（–2 至 –4）
混合型證券 — 高不履行風險（不佳）	BB+	（–5 +）	CCC+／CCC	（–5 至 –6+）
持股公司				
持股公司之 發行機構違約評等	A	（0）	BB–	（–1）
無擔保優先（低於平均）	A–	（–1）	B+	（–2）
次級債務（不佳）	BBB+	（–2）	B／B–	（–3 or –4）
混合型證券 — 最小不履行風險（不佳）	BBB+／BBB–	（–2 or –3）	B 至 CCC+	（–3 至 –5）
混合型證券 — 高不履行風險（不佳）	BB+	（–5 +）	CCC／CCC–	（–6 至 –7+）

保險公司財務實力 – 保險業者財務實力。發行機構違約評等 – 發行機構違約評等。IG – 投資級別。非 IG – 非投資級別。
資料來源：惠譽評等

VII. 新創公司與期滿自然流失組織

新創公司與期滿自然流失組織

新創公司考量

在某些情況下，惠譽會分配 保險公司財務實力 評等或 發行機構違約評等s 給進行經營或有限經營紀錄之保險公司。反映這項風險因素：

- 惠譽很少在考量母公司或集團支持高於「A」評等之影響性前，分配新創公司 保險公司財務實力 評等或 發行機構違約評等s。
- 許多資本和經營條件良好、但經營時間卻不久之機構，其 保險公司財務實力 或 發行機構違約評等 評等會取得「BBB」評等。

新創公司或經營時間不久之公司，惠譽會評估管理層級之紀錄、資料和經驗，以及更重視前瞻性預測和預算之評估。

在評估新創公司時，企業治理與持有因素也扮演了更重要之角色，包括配合管理層級與老闆們之動機，以及老闆們之身分、資源、投資風格、退場策略及投資紀錄。而資源有限之老闆們、積極之退場策略和高報酬期望則通常不利於保險業者之評等。

在評等這些公司時，評等過程中需要較高之判斷程度，惠譽認為，管理層級達到預測財務結果之能力會顯著影響到評等。

惠譽認為，公司經營時間不久一事會提高與同儕比較之風險情況，反映吸引優質新業務之挑戰和經營上之潛在難處。對於短尾業務之產業區隔而言，這些挑戰通常不太明顯和持久，客戶較為投機，且可公開取得之重要資料有助於量化和評估風險（例如災難再保險業者）。

當惠譽依照保險業者之獨立情況及五年以下之稽核資訊來分配評等時，將公開使用有限之財務紀錄一事。下表說明對已開發市場中之壽險和非壽險業者之影響。

有限紀錄之評等限制會在公司到期時放寬，且在多數（非全部）情況中之五年後便不再使用。隨著建立紀錄，會大幅降低限制程度。

表 VII-1：依經營年數之評等範圍

期滿自然流失公司之考量

在某些情況下，惠譽會分配評等給已停止經營且自願流失帳目之保險公司。惠譽對此類個體進行之分析包括檢討*單元* *I* 內討論之關鍵評等因素，但是同意缺乏持續特許權會帶來額外風險，其包括，在出現虧損時無力成長可獲利之新業務來抵消現有業務之虧損，以及無法在需要時增資等。

- 期滿自然流失組織之 保險公司財務實力 評等和 發行機構違約評等s 不會超過「BBB」評等，以反映這些特點。
- 對此會有限制之例外情況，但相當罕見。

方才討論之概念並不適用於活躍之公司，其商業模組涉及購買和期滿從第三方保險業者自然流失業務模塊。惠譽視此類公司為活躍之保險公司。

VIII. 短期評等

短期評等

短期評等之時間名義上一般定義為 13 個月，反映多數短期債務類型最長 397 天之期限。

主要使用下表概述之連結關係，從發行人之長期評等取得短期評等水準。這些連結關係反映惠譽長期評等評估內流動性固有之重要性及近期考量。

對於「A+」、「A−」及「BBB」之長期評等，可使用兩項短期評等中之一項。除非發行人展現出獨有之流動性特點並且期望持續下去，否則會使用兩項短期評等之較低者。

債務發行評等

商業票據等投資級發行人之短期債務發行評等，並不考量回收率，僅會反映違約風險。因此債務發行評等會照依與發行人長期 發行機構違約評等 之連結關係，而非無擔保優先債務評等。

短期 保險公司財務實力 評等

多數債務發行評等會連結至長期 發行機構違約評等，而短期 保險公司財務實力 評等則是連結至長期 保險公司財務實力 評等。

表 VIII-1：長期與短期評等間之關係

長期	短期
AAA	F1+
AA+	F1+
AA	F1+
AA−	F1+
A+	F1 或 F1+
A	F1
A−	F2 或 F1
BBB+	F2
BBB	F3 或 F2
BBB-	F3
BB+ 至 B−	B
CCC 至 C	C
RD／D	RD／D

流動性備援

由於再融資風險（含系統化市場瓦解之情況），惠譽在分析商業票據發行人之流動性時會考量到備援，無論發行人之信用評等為何，通常皆期望商業票據及其他短期債務具備完整（100%）備援。最常以承諾之銀行授信額度形式來提供備援，亦會以現金及優質流通證券、母公司提供之流動性支持及其他明顯可靠之替代項目來提供備援。

銀行提供備援設施之「重大不利變動」（M可用資本）條款與協議，讓分析流動性與評估備援設施充足性變得複雜。評等委員會會依個案來解決。

當備援出現重大不足之情況時，會造成所有長期與短期評等降級，或在某些情況下，惠譽無法評等短期債務。

流動性不佳之市場

上述指導原則最適用於美國和歐元區這兩個大規模又發展完善之短期債務市場，而在其他流動性不佳之市場中，評等委員會會視獨有環境來判斷調整這些指導原則。

IX. 回收率分析

- **A.** 概要
- **B.** 預估債權人可取得之價值
- **C.** 預估債權人群體
- **D.** 決定價值分配

A. 回收率分析 － 概要

惠譽對 發行機構違約評等s 為「B+」以下之發行人，會對各發行人債務組別執行客製化之（又稱為「訂製」）之回收率分析方式。由於 發行機構違約評等 降低至「B+」或以下，惠譽會力求同時分配 回收率評等 給受評之債務和混合型證券發行。

惠譽之訂製分析特定回收率計算方式會依個案進行調整，以反映不同環境、期望之資產回收率及債權人順序。但惠譽在各情況下皆使用相同之三步驟方法：

- 預估債權人可取得之價值
- 預估債權人群體
- 決定價值分配

這些程序是用以估算違約事件中債權人可取得之價值，再依對方所期望之先後順序來分配給不同債權人評等。值得注意之是，估算保險公司之價值常需運用高度判斷能力。分配價值給多個債權人評等有著明顯之不確定性，尤其是在新興市場或考量跨國保險集團時。

在特定之情況下，若惠譽認為它沒有執行健全回收率分析所需之資訊，或是無足夠之機會以恰當研究可取得之資訊，以對 回收率評等 做出擁有意義之決定，即會判斷 發行機構違約評等 是低到無法分配 回收率評等 之時機。

在這些情況下，惠譽會毫不遲疑地降低 發行機構違約評等 至適當程度，且公布期望分配 回收率評等s 給受評之發行人證券之時機，於此情況時，惠譽在能決定 回收率評等s 前，會對評等觀察給予相關發行評等。

最後，若是惠譽覺得無法進行完整之訂製回收率分析，便不會分配 回收率評等，而是：1）在調整發行評等級距時採用基線回收率假設，並表示由於發行評等之限制而無法分配 回收率評等；或 2）撤回發行評等。

B. 預估債權人可取得之價值

可透過多項方法來估算債權人能取得之價值。對於保險公司而言，監管機關之角色會對各步驟產生嚴重影響。

- 資本保障或阻礙付款給持股公司，會對協助相關回收率之受規範保險公司構成資本緩衝。
- 若是能出售保險經營個體以減少資產價值下降之潛在情況，即能最佳保障保單持有人之回收率價值。
- 由於壽險債務期限較長，因此壽險與非壽險間或許亦會出現差異。

惠譽會依最有可能違約之個體來決定用於判斷 回收率評等 之特定估價技術。分析師會採取清算與企業價值法，而理論上，兩者應會有相似之結果。若是出現顯著差異，分析師與評等委員會判斷這些差異。

清算法

受到規範約束之保險業者不會採用與企業一樣之清算方法，而是依各司法管轄範圍之法規來進行。簡單而言，集團或個體依本身現有資產來償清債務給債權人之方式皆稱為清算法。

惠譽在計算保險業者之價值時，會對資產負債表進行多項調整，以反映：

- 預估違約時資產負債表之情況。
- 實際對資產再估價，尤其是在以「減價銷售」價格出售部分資產時。
- 結束時部分資產（例如商譽、遞延稅資產）貶值。

因此，惠譽會視不同個案對資產進行多種「折減」措施，例如，若保險業者之低 發行機構違約評等 顯著反映其部分投資資產有著高度風險，即會折減這些投資資產以反映違約時之可能價值。在另一方面，若是主要評等考量是債務（亦即，理賠／福利準備金）增加會是保險業者違約最有可能之原因，且資商品質優良，則資產折減之幅度可能會較小。

以下為使用清算法時額外之六個步驟／指導原則：

- 折減資產以反映違約時資產會貶值，且需以大幅折扣之方式出現非流動投資項目。依司法管轄範圍內之會計實務內容而採用不同之折減方式。在以歷史價值來折減資產之司法管轄範圍中，其做法會比依市值之司法管轄範圍更為嚴謹。假設之清算時間也是一項重要因素。壽險公司有較長之期限，清算時會有較大之餘裕，而產險／意外險公司就有壓力必須在短時間內支付。
- 假如壓力會留在經營公司層，則持股公司現金會假設在違約前作為資本投資以支付給經營公司。

表 IX-1：資產折減

資產	特點	折扣（%）
現金 — 經營公司	低風險，但在違約前地位會下跌	0–25
現金 — 非經營持股公司	假設會使用持股公司現金或在違約前會撥給經營公司	100
政府證券	低風險和流動	2–3
再保險可獲理賠項目	品質變動，易有風險或誇大方面之爭議	10–40
企業債務證券	主要低風險，但流動性會出現變化	15–50
結構性金融證券	品質不一，但流動性有限	15–100
不動產與財物	非流動性，且價值可能浮動	20–60
集團內應收款項	視集團其他部分之信用品質而定	25–100
權益	多種流動性及浮動性	15–100
經紀人／保單持有人之到期金額	可扣留之金額	50–70
固定資產 — 有形	非流動之且價值會出現變化	15–50
關係企業及合資企業	非流動之且價值會出現變化	20–100
無形資產	非流動且不良時價值可疑	70–100
有效時之業務價值	非流動之且價值會出現變化	40–100

備註：這些範圍僅供說明。惠譽在訂製分析法中會使用其他較適合之資產估價方式。

- 註銷遞延稅資產與其他無形資產。例外情況為，在違約情況下仍期望保險業者之部分業務未來具備獲利能力。雖然，若依照現有帳目來估算獲利能力時，有一大部分遞延取得成本（D可用資本）／無形資產必須視為公司資產。
- 任何自折算業務估算出之未來獲利能力皆不視為公司資產，此類利潤一般反映金錢之時間價值及本身之信用風險。
- 擔保等資產負債表外之資產可視為投資。
- 從總回收率另外折扣 2% 之資產以取得行政成本，不過各國之作法並不一致。

在訂製分析法中係依環境採用不同之資產折減方式，雖然硬性規定，然依過往之觀察內容加上惠譽之判斷認為，上表中之折減內容擁有代表性。

企業估價

某些情況下，惠譽不會進行清算或是在清算作業中估算部分保險營運內具容之價值，在對備能個別出售之子公司之持股公司進行回收率分析時尤為如此。

於進行此類企業估價作業時，惠譽會考量違約個體是個「強制」賣家，信譽、營運、財務等其他連結關係會影響到估價。

- 惠譽在判斷要出售之保險營運公司之價值時，會思考同儕之市場報價或是採用估價指標，例如盈餘倍數、帳面價值或公布之內含價值之百分比。

- 各個案使用之倍數值不一，但通常在下表之範圍內。

表 IX-2：估價倍數 － 圖解

估價法	倍數（x）
價格／盈餘倍數	3.0−10.0
帳面價值	0.8−1.1
內含價值	0.7−0.95

備註：這些範圍僅供說明使用。在出現極端市場或經濟情況之時期中，合理倍數會落在上述範圍外。惠譽在訂製分析內容中會採用其他更適合之估價法。若採用非上述估價法時，倍數會落在這些範圍外。

當地市場、監管機構及是否能從同儕取得倍數，會影響到使用倍數之情況，而在各種情況中，會在出現估價峰值時運用穩健原則來限制倍數，此反映低谷時倍數會出現瓦解之狀況。

當市價登上歷史峰值時，惠譽會使用相對保守之估價倍數。同樣地，於市況不佳或紛亂、基本呈現不流動之情況（像是 2008 年之金融危機）之際，惠譽之回收率倍數會高於觀察到之市場倍數（若有之話）。不過，惠譽仍會抱持保守假設。

C. 預估債權人群體

惠譽通常依照年資對債權人進行分類，例如同等優先清償債權人即分為同一組。惠譽會調整債權人個人資料，以反映：

- 違約預估資產負債表之變化情況。
- 會計方面之調整，例如確保債務反映持有之金額，而非公允價值（即減記以反映發行人本身之信用風險）。

對債務給予「衝擊」，可反射出折減資產之作用，且反映期望違約前擴大部分債權人評等。

例如，惠譽會衝擊保險債務，以反映結果會使得部分成因惡化或作為違約之效應。若個體有準備金金惡化或不佳承保紀錄時，且認為個體根據債務（而非資產）方面之難處而最有可能違約時，相較於其他情況，惠譽會對保單持有人債務採取較大之衝擊程度。

下表說明一般評等與衝擊。

表 IX-3：計算債權人群體

先後順序	資產負債表評等	衝擊（% 增加）	備註
1	有擔保／優先債權人	–	
	未盈保費準備金	–	
	未決賠款條款 – 非壽險	5–20	反映違約前準備金金惡化或不佳績效之情況
	長期健保準備金金	0–10	反映違約前準備金金惡化或不佳績效之情況
	長期壽險準備金金	0–10	反映違約前準備金金惡化或不佳績效之情況
2	保單持有人債務		
	相關方之故	–	
	再保險業者之故	–	
	債權人與應計費用	–	
	優先無擔保債務	–	
	銀行授信額度與透支	會變動	反映違約前調降承諾之銀行授信額度
3	無擔保債務	–	
4	次級債務	–	
5	低順位次級債	–	

D. 決定價值分配

在決定債權人可取得之價值及估算各優先權水準之債權人規模後，惠譽會依嚴謹之法定分配順序假設如何將此價值分配給各類債權人。

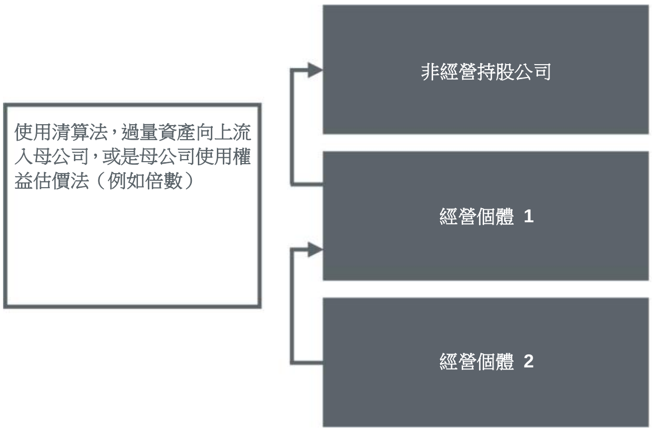
- 當最優先債權人收到 100% 回收率後，才會分配給下一級之優先債權人。
- 作業會持續到已分配完所有可用價值，或已完全支付給所有債權人。

集團中有多層個體，價值可能從下向上流動到各層（請見下*表 IX-4*）。

計算出預估之回收率內容後，便會轉換為惠譽之回收率帶。請見次頁之惠譽回收率評等量表，將其用以依*單元 VI* 中討論之級距指導原則判斷 回收率評等 及發行評等。惠譽會以最終回收率之基礎來測量回收率情況，而不會對回收率打折扣以達到現值基礎。

某些市場中，會透過「支出目標」(soft cap）來表示惠譽在部分對債務人友善，以及（或）債權人執行權力較弱之司法管轄範圍中會分配之最大回收率值。假設在新興市場最常見之 發行機構違約評等 s 為「B+」或以下，回收率之「支出目標」就有可能非常顯著。僅會在完全分配價值後才使用支出目標，且降低適用於某些工具之回收率評等。請參閱 www.fitchratings.com 網站上「特定國家處理回收率評等之方式」之內容，以得知更多資訊。

表 IX-4：集團回收率分析 —說明範例



回收率	（%）	歐元（百萬）
優先無擔保	45	10
次級債務	0	0
股東	—	0

回收率	（%）	歐元（百萬）
保單持有人	100	150
優先無擔保	100	10
股東	—	20

回收率	（%）	歐元（百萬）
保單持有人	100	150
優先無擔保	100	10
股東	—	20

表 IX-5：惠譽回收率評等量表

回收率量表係以解決違約、從無償付能力發生或接著清算或終止債務人或其附屬擔保品，期望債務出現相關回收率特點為基礎。因此，這是一種次序量表，且未準確預測特定回收率水準。雖然回收率評等（RRs）是依相對價值計算，但是惠譽在分配 回收率評等s 時亦會採用以下回收率帶。

回收率評等	定義	回收率帶（%）
回收率評等1	傑出回收率前景之違約	91−100
回收率評等2	優秀回收率前景之違約	71−90
回收率評等3	良好回收率前景之違約	51−70
回收率評等4	平均回收率前景之違約	31−50
回收率評等5	低於平均回收率前景之違約	11−30
回收率評等6	不佳回收率前景之違約	0−10

備註：依發行與債務評等之 回收率評等 從 發行機構違約評等 調高或調低級距，一般假設特定個體之所有債務有相同之違約風險，反映在個體之 發行機構違約評等 中。

X. 自保公司

何謂自保公司？

在本報告中，將自保公司定義為贊助組織成立之保險公司以專門（或主要）銷售保險或再保險給贊助組織。以往，想要對特定風險自行進行保障之贊助組織會使用專屬保險，而他們本來就對其有投保債務（例如美國之勞工賠償保險）。身為取得授權且受到規範之自保公司，其符合保險條款之要求。自保公司亦會放出一些贊助人視為不利於自我保險之風險，例如災難事件造成之龐大虧損，因此自保公司常具備有效之再保險計劃。

評等自保公司

在本單元中，惠譽討論了支持自保公司評等之核心原則，其適用於以下兩者之評等：

- 單一（或有限數量）產業或其他非保險公司持有之自保公司
- 保險或再保險組織持有之自保公司

相較之下，雖然會考量持有情況之特殊面向，但有著大量持有人／贊助人之特定產業自保公司會被評為傳統保險公司。在自保公司為法定架構一部分，持有人／贊助人有效透過圍欄對其資本加以設限之情況下，惠譽會運用其與保險相連之證券評等標準（在第 1 頁所述之內容）。

在本單元中也討論了所有其他要進行評等之自保公司形式。自保公司之評等可包括 保險公司財務實力 評等、發行機構違約評等 及（或）含銀行授信額度和信用狀在內之債務發行評等。

隨著後面更深入地探討，在某些情況下，評等／評估之用途會影響到惠譽對自保公司分配私有評等或評估之意願。

通用評等概念

運用*單元 I* 中概述之「關鍵信用因素」，加上*單元 V* 中之「集團評等方法」通用概念，以取得自保公司之評等，但自保公司之業務焦點十分狹隘，而且對母公司／贊助人之自保公司有著特殊連結關係，因此對自保公司會使用異於傳統保險公司之評等原則。

尤其是：

- 自保公司之評等上限為母公司／贊助人之評等。
- 訂定自保公司為「核心」之參數，在某些方面與*單元 V* 中所述用於傳統保險集團之參數不同。
- 於評估資本適足性時，更著重於相對於資本之淨自留風險限制與分出再保險計劃。
- 自保公司資本包括大量使用信用狀（LOC），需要另外分析含意。
- 若是非母公司／贊助人有著龐大之業務額，則惠譽會將自保公司視為傳統保險業者進行評等，而非自保公司。

評估自保公司之財務實力

以下另詳述自保公司評等分析中之獨特面向。

母公司／贊助人評等「上限」

通常，母公司之評等即是自保公司評等之上限。非保險公司母公司之 發行機構違約評等 便是自保公司 發行機構違約評等 之上限，而母公司之 發行機構違約評等 也可能是自保公司 保險公司財務實力 評等之上限，使得可能壓縮相對於惠譽用於傳統保險公司之標準級距之自保公司評等。這種可能壓縮評等之情況是根據自保公司與其母公司間極為穩定之連結關係，期望於違約回收率時，自保公司之保險債權人不會多於母公司之優先債權人。

在不尋常之情況下，若贊助人呈現弱勢而自保公司維持受到嚴密保護和高度資本，則惠譽會選擇進行特定回收率分析，設定自保公司 保險公司財務實力 評等高於贊助人之 發行機構違約評等。在這些情況下時，會將自保公司 保險公司財務實力 評等提升到高於贊助人 發行機構違約評等可能小於一個評等級距（亦即，從「BBB」到「BBB+」）。

對於保險公司之母公司，自保公司 保險公司財務實力 評等之上限為母公司之 保險公司財務實力評等。

以下為使用母公司評等「上限」之原因：

- 無母公司之贊助，自保公司便則無法存在。
- 自保公司僅從母公司取得資本以資助成長或虧損補充，並取得財務彈性。
- 自保公司之帳目和留存策略係源自於母公司及母公司之風險承受度。
- 基本上所有影響自保公司財務狀況之決定皆來自母公司，或者母公司對其有重大影響力。
- 母公司設定自保公司上游股利政策（自保公司監管機關可能會對此設限，各司法管轄範圍會有不同之作法）。

評等高於母公司之自保公司需以大幅高於母公司評等，以及財務狀況其他方面所意指之水準進行資本化， 如同獨立評估所意指之，需要較高評等之支持。此外，也需要有*單元 V*「*評等高於集*

團評估」底下所討論，關於母公司 – 自保公司關係之概念。惠譽認為，在自保公司之案例中極少會出現這些情況。

母公司評等一般是自保公司評等上限，但在最特殊情況下，除非被母公司視為「核心」，否則自保公司不會達到母公司之評等水準。若非核心，則自保公司之評等會低於母公司評等或其獨立評估。

核心自保公司之定義

根據自保公司業務之特殊性質，用於定義自保公司為核心之參數與*單元 V* 中討論之參數並不一致。

- 自保公司之使命和策略目標與母公司風險管理和風險融資策略有著錯綜複雜之關係。
- 自保公司必須具備明確能節約費用之目之，讓母公司能透過相較於使用第三方保險或再保險之方式，以更具效率或成效之方式去管理風險及（或）成本，包括提供一致之產能。
- 絕大多數之自保公司業務源自於母公司之業務，且母公司不視自保公司為利潤中心或業務線。提供保險給母公司客戶之自保公司會視為非母公司之業務。
- 母公司對自保公司提出合理之財務承諾，以支持其持續下去之償付能力和生存能力。

淨自留限制和分出再保險

當惠譽使用*單元 I* 內討論之工具來評估自保公司之資本適足性率時，亦會依風險及綜合基礎注意自保公司之資本淨自留情況。

自保公司之重要角色之一即為塑造風險，在淨自留與購買分出再保險（或其他形式之風險減緩措施）之間取得適當之平衡，是塑造風險情況和自保公司資本適足性之要點。大規模之自留情況可顯示缺乏贊助人那一方之承諾或違反整體風險管理。

由於評估自保公司再保險與其他風險減緩計劃有著相當高之重要性，因此惠譽會比針對傳統保險或再保險公司更深入地檢討這些計劃。相較於對傳統保險業者之評等，計劃內出現差距亦會對自保公司之評等有著更顯著之影響。

從低於母公司評等之水準而取得之自保公司資本「分數」，會使得惠譽對核心自保公司給予低於母公司之評等。高淨自留率會是惠譽判斷資本評估不會與母公司評等相同之一個因素。

資本 – 信用狀

惠譽指出，有時會以銀行 信用狀 之形式來提供某部分之自保公司資本，而在某些情況下，會授權給自保公司之監管機關來使用 信用狀，這個單位在管理層級或母公司表明不願配合之壓力下視信用狀 為取得流動性之管道，以提供資金進行理賠。在其他情況下，母公司會安排及（或）擔保信用狀以限制其股權投資及管理資本成本。

在這兩種情況中，提供 信用狀 之銀行評等會成為評等自保公司之要素，尤其是在有壓力之情況下、銀行對信用狀之表現又對自保公司之償付能力和生存能力事關重要之際。於此情況時，銀行之評等會成為自保公司評等之上限，但不會像金融擔保一樣「提高」評等（除非 信用狀 設計為仿效金融擔保）。

由於將 信用狀s 作為資本形式有如此多種之用途，因此評等委員會會依個案進行考量。

非母公司／贊助人業務

若是自保公司之業務包括少量之第三方業務（亦即，一般不到 20%），則惠譽評等自保公司之方式會較像傳統保險業者，不太可能將自保公司之評等提高到母公司／贊助人之評等水準。惠譽會依個案考量大部分第三方業務具適當性之異常情況。

保險與再保險公司之自保公司

近年來，惠譽注意到壽險公司組成自保公司作為融資交易之個體，例如在美國移轉 XXX 準備金風險。同時，在某些情況中，保險連接型證券（ILS）會將自保公司作為實際上之特殊目的個體（SPV）。

於此情況下，自保公司會作為特定帳冊或風險評等之再保險業者，然後將這些風險移轉給債務投資人或銀行／其他交易對方等第三人。

在保險連接型證券交易中將自保公司作為特殊目的個體時，會依本報告第 1 頁「保險連接型證券」內容之保險連接型證券管理標準，將其債務視為結構性金融債務進行評等。

若未視自保公司為結構性金融特殊目的個體時，則會使用本單元內討論之自保公司評等方法。

自保公司私有評等 – 特殊考量

在某些情況下，銀行或其他交易對象會要求惠譽對自保公司提供私有評等或評估（主要針對保險公司贊助之自保公司）。銀行或交易對象常會使用私有評等／評估來協助判斷對交易對象風險持有多少資本給自保公司。在某些情況下，這些私有評等或評估之預定用途不會影響惠譽之方法。

例如，惠譽指出在特定情況下，母公司保險公司在進行 XXX 準備金金融資時出現過不利致死之情況，而將銀行 信用狀 用以擔保自保公司債務績效。於此情況時，銀行會承擔死亡及自保公司破產之風險。根據銀行規定（即 Basel 3）下資本需求之目之，銀行會尋求 信用狀 工具之私有評等以判斷抽身之風險。

於此情況時，惠譽之目標是提供最符合銀行或交易對象特別假設之風險之評等，例如在前述之例

子中，由於母公司之支持，在自保公司之獨立評等未反映升等一事。當惠譽在未考量標準報告本單元內各項因素而提供評等時，會在支持私有評等之信件中明確公開這些限制。

XI. 其他考量

A. 保險評等類型

B. 支持評等之資訊

C. 標準限制

D. 主標準之例外情況

A. 保險評等類型

須將分配給保險公司之評等類型交待清楚。惠譽在「評等與其他意見表定義」文件內提供了更完整之發行人與發行評等內容。在 www.fitchratings.com 網站上可找到此文件與惠譽之多種評等量表和評等定義內容。

保險業者財務實力評等

保險業獨有之 保險公司財務實力 評等，其係分配給保險公司保單持有人債務發行評等。此評等可指出保險業者支付保險理賠和給付債務之能力，並能在級距作業中作為初始「錨點評等」。

保險公司財務實力 評等不包括保單持有人承擔投資或其他風險之專用分立帳戶、單位相連保險商品，或是隔離基金內之保單持有人債務。但是，提供給保單持有人之此類債務相關擔保皆會納入 保險公司財務實力 評等。

除更為一貫之長期 保險公司財務實力 評等之外，惠譽在某些情況下亦會分配短期 保險公司財務實力 評等給合約期間一年以下之保單持有人債務，例如短期供資協議（請參閱*單元 VIII* 中其他關於短期評等考量之討論）。

發行機構違約評等

如同對其他之企業金融業一樣，惠譽對保險公司亦會給予 發行機構違約評等s。發行機構違約評等 是分配給公司本身之評等，以指出違約或破產風險。從 保險公司財務實力 評等訂定 發行機構違約評等 級距，發行機構違約評等 可作為後續級距之錨點。

在保險業中，當個體為實際或潛在債務發行人時才會公布 發行機構違約評等，若僅有其他評等為保險公司財務實力 評等時，則不會公布 發行機構違約評等。

可對長期與短期評等量表發出 發行機構違約評等。

債務與混合型證券評等（長期與短期）

惠譽與其他企業金融業一樣，在保險發行評等之範圍內分配給多種形式之長期／短期債務及混合型證券。此類發行評等是分配給證券本身。

債務發行評等可反映其 發行機構違約評等 中之發行人違約風險，以及違約事件中期望之回收率（又稱為違約損失率），因此依回收率假設從 發行機構違約評等 調高或調低級距來建立債務發行評等。同樣地，會依回收率期望從 發行機構違約評等 調高或調低級距來建立混合型證券評等，不過會考量混合型證券特點獨有之額外風險，例如違約前之遞延風險。

應注意的是，亦會依保單持有人債務回收率之假設，從 發行機構違約評等 調整級距來建立作為一種發行評等形式之 保險公司財務實力 評等。惠譽對保險業者監管環境提出之假設對此類回收率假設擁有著顯著之影響力。

請見*單元 V* 以取得級距方法相關內容。

回收率評等

惠譽與其他企業金融業一樣，會分配特定回收率評等（回收率評等）給發行評等為「B+」或以下之債務或混合型證券（高於「B+」之發行評等，級距實施採用基線回收率假設，相關內容請見*單元 V*）。

請參閱*單元 IX* 內支持發展 回收率評等s 之分析討論內容。

回收率評等s 會受限於各司法管轄範圍對債權人之友善程度，以及在違約事件中是否能行使權力之支出目標。請參閱 www.fitchratings.com 網站上「國家特定處理回收率評等之方式」報告，以取得相關資訊。

本地貨幣和外幣評等

理論上，新興市場可依本國貨幣或外幣基礎，提供任何上述之信用評等（保險公司財務實力、發行機構違約評等、債務發行），但移轉及轉換風險很少是決定保險業者評等之因素，惠譽不會經常公布保險公司之個別本國貨幣和 外幣 評等。但是，可能會在適當時機分配個別 本國貨幣 與 外幣 評等。

在*單元 I-B* 中進一步討論了可能用於 外幣 和 本國貨幣 評等之「上限」。

國內評等

新興市場中，惠譽亦會對其中某國等級分配信用評等（保險公司財務實力、長期、債務發行）。國內評等僅在所考量之國家內，對受評之個體之信譽提出一個相對量表。在此評等量表下，會分配「AAA」長期國內評等給該國內最低相對風險者，在多數（並非所有）情況下即為主權國家。

保險業中，拉丁美洲和其他新興市場常使用國家 保險公司財務實力 評等。

國內評等會加入一個包括表明套用該國內評等量表之後綴詞。在 www.fitchratings.com 網站上提供有更多關於國內評等之資訊。

B. 支持評等之資訊

惠譽會依相關分析師可取得之資訊來決定分析與評等結果。資訊來源為發行人和公領域，包括可公開取得之發行人相關資訊，例如已／未完成稽核覆核（例如過渡時期）之財報和監管申報項目。

評等程序也可加入其他第三方提供之資訊，若是這些資訊是重要之評等基礎，則特定評等動作會公開相關來源。

多數公開上市交易之公司皆會提供充足完整之資訊，以達到惠譽之最低指導原則要求。而在多數司法管轄範圍中同樣具備充足完整之監管資料，可達到惠譽之最低資訊指導原則要求。

若惠譽認為資訊不夠充足完整時，便不會分配新之平等或是會撤除現有評等。惠譽會單獨決定此事。若惠譽僅採用公開資訊，以及當收到發行人之未公開資訊時，就會發生這個情況。

未公開資訊

惠譽雖會收到受評發行人之未公開資訊，但是各發行人之未公開資訊程度和有用性，以及長期針對特定發行人，會有著相當大之差異。這些資訊雖擁有大量內容，但是惠譽在評等保險公司時通常不會依賴未公開資訊。

再者，惠譽同意，公開取得之資訊通常僅是投資人、經紀人、保單持有人及其他對保險公司信譽有興趣之利益關係人能取得之資訊。

但是，有一些例外情況，例如，惠譽認為必須有詳細之曝險資料才能分析抵押貸款保險業者，而這些資料是由受評之組織提供、一段時間維持相關性且未經稽核覆核。曝險資料維持充足性之時間須視特定環境而定，但很少自提供日起超過 18 個月。

評估資訊充足性

當惠譽分配或更新之評等時，會判斷支持評等分析之資訊是否充足。惠譽會考量以下項目：

- 若惠譽認為能依這些標準評估影響公司之重要風險，即有充足顯之資訊量。
- 惠譽對特定受等評等之個體會考量其他受評公司可取得之資訊程度。
- 惠譽會採用合理之預估內容，以協助填補些許之資訊缺口。

更具體而言，會使用以下指導原則：

- 應可取得涵括過去五年，或是從開始經營業務起（若此時間較短）之營運財務資訊。
- 出現讓惠譽使用五年以下資料來評等保險公司特殊環境（例如併購）。
- 依個案進行評估。

某些情況中，產業特定標準會比主標準對資訊要求設定較高之標準。

評估資訊完整性

當評等委員會找到擁有大量資訊之資料，且能可靠用於重要之評等分析時，即視這些資訊擁有完整性。亦會運用以下考量：

- 惠譽雖信任稽核人員對財報之檢討內容，亦會運用認為可靠之其他專家之意見。
- 例如精算顧問、風險建模機構和法律顧問等。
- 惠譽也經常會使用多種第三方資訊來源和受評組織直接提供之資料。

惠譽對透過這些管道提供之資訊是採用「合理性覆核」標準。

挑選和調整資訊

在進行評等分析之過程中，惠譽經常會收到重複之多種形式資訊，例如惠譽審視保險集團之合併財報、特定保險公司之個別財報、僅有母公司之持股公司財報及（或）合併財報。

- 視環境決定各類型財報之相關程度。
- 不是從各受評之個體皆能取得所有類型之財報，於此情況時，惠譽會審視能取得之最佳資訊。
- 相異之會計規定或政策會影響保險業者之結果。
- 惠譽會調整提出得到之財務資訊，以提高比較性或更符合惠譽之定義。

C. 標準限制

惠譽主要是依覆核公開資訊，加上自行判斷和預測來決定評等。當預見管理層級即將發生互動之際，惠譽會判斷衍生出之資訊是否有用，但不一定會影響評等。在某些情況下，惠譽對曝險或預測相關之前瞻性觀點會影響評等決定，且這些前瞻性觀點會依據擁有高度判斷性之因素。

有眾多發行內容可能具備信用評等之含意，尤其是全球保險業在地理和商品方面之多元性質。惠譽之內部分析及外部通訊內容，會限於認為重大且與評等最具相關性之發行項目上。

保險業與許多非財務評等之不同點在於，保險業者之財務實力與提供之保單價值有關。簡單而言，極為穩健之保險公司答應理賠之能力，即視為較弱勢公司更有價值，且部分保單持有人有著他們認為恰當之最低財務實力水準，其代表在某些情況下，當財務實力略為走弱時，由於失去生意或有著明示或暗示之評等觸發因子，而會放大後續效應。在知道保險業有此特點之情況下，保險業者評等轉變之嚴重性會比非金融公司更加明顯，尤其是從市場敏感性尖端降級之際。

「事件風險」限制定義為意外事件，在得知事件前並不會納入現有評等內。事件風險包括管理層級突然決定收購另一家公司、從事大規模股票購回活動，或是營運作業出錯而造成意外虧損。部分評等已合理假設管理層級之收購策略、易於利用現有之財務彈性，或是經營基礎架構疲弱，但必須等到事件明朗或完成之際，才會知道特定事件之詳情及其對資金、資本和流動性之效應，於此情況時，才能確定評等。

任何形式之企業分析都避不開估算、風險、不確定性及匱乏理論上「理想」之資訊水準，但它們本身未對評等加以設限。然而也有符合惠譽之最低資訊指導原則，卻需要對重大風險進行慎重評估之情況。在某些情況下，若支持評估之資訊未達可用於對同儕公司進行評等之水準，則可能會造成更大之預測失準風險，於此情況時（若情況嚴重時），惠譽即會公開此事，以作為對評等之限制，並說明此限制對評等水準之影響性。

取得發行人提供或公開文件內之特定資訊，限制了惠譽對企業治理和管理層級之評估。

惠譽秉持高度判斷之態度，主要係依據對管理層級態度、監管機構或政府運作狀態，以及保險集團內公司過往績效表現等考量之觀察結果，進而發展集團評等法，而非自對歷史資料進行統計分析而取得標準。在某些情況下，使用集團評等標準會提高突然對合併、收購及剝離活動等事件降低多個級距之風險，例如，若惠譽認為集團會持續支持而從獨立層面大幅提高某個集團成員之評等，但後來集團出售此成員，該集團成員之評等會回到獨立層面，即會出現大幅變動之情況。

當組織整體財務實力削減時，惠譽將集團支持納入評等之程度亦會下降，使用本標準可能會加強集團在財務壓力下評等變動之風險。

在許多情況下，惠譽並不會維持評等得利於集團支持之集團成員所意指之獨立評估內容，於此情況時，若是環境變動指出應依獨立基礎對成員進行評等（例如剝離之故），且惠譽無法或不願適時發展獨立意見時，則使用本方法會讓惠譽撤回集團成員之評等。使用集團評等標準可能會打斷惠譽維持評等保障範圍或在組織變動時提供意見給市場之能力。

在級距與回收率方法中，*單元 VI* 中之*監管分類假設情況*顯示，惠譽目前對在各司法管轄範圍中監管措施之說明適用於級距實施。惠譽雖透過本身之觀點來判斷評等，卻不應對其他目之使用這些資訊。

至於回收率評等（回收率評等），僅是為了方便起見而提供 回收率評等 定義中之百分比回收率帶，而不以百分比或絕對價值來表現期望之回收率內容。

惠譽之主觀預測內容是成為推動判斷 回收率評等s 與假設基線回收率前景之分析結果之主要因素。接近違約之公司之資訊流並不規則，並且會降低惠譽對其修正後回收率分析之清晰度。在回收率中占有顯著地位之法律判決，對回收率期望造成了明顯之影響力。在此本方法中並未納入庭外和解一事，不同於在部分特定情境中某些評等低順位債券支付大筆特許費之情況。事實上，債權人和解與地方政經必要性對會庭外和解產生重大影響性，而這些皆處於浮動之情況。

發行機構違約評等 與 回收率評等s 均無法達到債權人和解之程度，這個情況一直在變動，惠譽無法有效加以監控，不過，在解決許多行政、破產無償付能力及再造之情境中，債權人和解卻是一個重要因素。

www.fitchratings.com 網站上《*評等定義與其他形式意見*》一文所述之限制對保險評等有所規範。

Insurance Rating Methodology

Global Master Criteria

Contents

This report replaces the previous *Insurance Rating Methodology* report dated Sept. 15, 2016. See details on page 2.

Related Criteria

Country-Specific Treatment of Recovery Ratings (October 2016)

Insurance-Linked Securities Methodology (October 2016)

Country Ceilings (August 2016)

Criteria for Rating Sukuk (August 2016)

Analysts

EMEA
Chris Waterman
+44 20 3530-1168
chris.waterman@fitchratings.com

North America
Julie Burke
+1 312 368-3158
julie.burke@fitchratings.com

Asia Pacific
Jeffrey Liew
+852 2263-9939
jeffrey.liew@fitchratings.com

Latin America
Eduardo Recinas
+503 2516-6606
eduardo.recinos@fitchratings.com

Scope

This report specifies Fitch Ratings' methodology for assigning new and monitored international and national Insurer Financial Strength (IFS) ratings, Issuer Default Ratings (IDRs) and debt/hybrid security ratings within the global insurance and reinsurance industries. This includes ratings in the non-life (i.e. property/casualty or general insurance), life/annuity, accident/health/managed care, financial guaranty, mortgage and takaful insurance sectors.

Key Rating Drivers

IFS Rating Starting Point/Anchor: The IFS rating is the starting point of the ratings exercise and serves as an anchor for other ratings. The main rating driver for the IFS rating is an assessment of the (re)insurance operating company's (companies') performance under the Key Credit Factors defined in these criteria.

Key Credit Factors/Weightings: The assessment of the Key Credit Factors includes review of financial ratios and other quantitative elements, as well as various qualitative considerations. Key Credit Factors encompass principals that define the general scope of the ratings analysis, as well as specific guidelines. Factor performance is also assessed relative to peers. Rating committees employ judgment in weighing the various Key Credit Factors in the final rating.

Forward-Looking Viewpoint: Though a significant part of the ratings exercise involves review of historical information, ratings are ultimately established considering a forward-looking viewpoint. The main forward-looking driver is typically a trend/outlook identified for each applicable Key Credit Factor. Forecasting, stress testing or sensitivity analysis can also be used, most commonly when stressful economic conditions may affect a Key Credit Factor.

Group Methodology: After the IFS rating is established for the most significant or core member(s) of an insurance group, criteria are applied to judge the appropriate rating level for other group members. The drivers of these criteria include the strategic importance of the group member; use of support agreements (if any); and the ability of the core members to provide support, including any restrictive regulatory or other barriers that may be in place.

Notching: Ratings assigned to insurance holding companies, as well as to various debt or hybrid security obligations, are established by notching criteria. The key drivers of these criteria are the nature of the insurance regulatory regime; the perceived difference in default risk between individual companies; and for obligation ratings, general assumptions with respect to a loss given default (at lower rating levels, a bespoke recovery analysis is used). For hybrid securities, notching is also driven by features that influence risk of nonperformance.

Additional Ratings Drivers: These criteria include additional ratings drivers that influence the ratings of select insurance organizations. These include constraints on ratings for start-up or runoff organizations, parameters that define the rating of a captive insurer relative to that of its owner/sponsor, and methodology to judge the equity or debt-like nature of hybrid securities in assessing capital adequacy and financial leverage.

About This Update

The following is a summary of the key modifications:

- This update primarily reflects the addition of newly established criteria elements specific to the mortgage insurance industry. Such criteria were originally published as part of an exposure draft dated Jan. 4, 2017 (*Exposure Draft: Mortgage Insurance (Global)*). There were no substantive changes made to the draft criteria following the exposure period.
- In *Section I* (*Key Credit Factors*), Fitch added a section describing the mortgage insurance sector's industry profile and operating environment, and also updated various median ratio guidelines to add metrics for the mortgage insurance sector. Additionally, minor related changes and additions were made to the financial ratio definitions.
- Additional details on how Fitch applies criteria in the mortgage insurance industry can be found in the sector credit factors report, *Mortgage Insurance (Australia and U.S.)* that will be published concurrent with this criteria update.

Impact of Criteria Update on Ratings

None of the above criteria changes are expected to directly result in rating changes.

I. Key Credit Factors

A. Key Credit Factors — Overview

The main factors used by Fitch in support of the core fundamental credit analysis of an insurance company or group follow below. These factors are grouped by those that are qualitative in nature, and those that are primarily quantitative. Various types of insurance ratings to which these factors apply are discussed in *Section XI-B*.

Key qualitative factors are:

- Sovereign and country-related constraints
- Industry profile and operating environment
- Business profile
- Ownership
- Corporate governance and management

Key quantitative factors are:

- Capitalization and leverage
- Debt service capabilities and financial flexibility
- Financial performance and earnings
- Investment and asset risk
- Asset/liability and liquidity management
- Reserve adequacy
- Reinsurance, risk mitigation and catastrophe risk

Where applicable and material, Fitch may assess any non-insurance-related risks or exposures based on the appropriate Fitch rating methodology for that exposure.

In very select cases, an additional qualitative factor that can limit the rating level exists for start-up and runoff organizations. See *Section VII* for details.

The financial ratios discussed in this section are high level, and provide an overview of select key ratios applicable at a global level. These global ratios are discussed in more detail beginning on page 37. In practice, more than just these ratios are used in support of Fitch's analysis.

These credit factors are applied to the analysis of the "rating unit," which may be an individual insurance company, consolidated group, or part of a group, depending on the rating exercise. Defining the rating unit(s) is the first step in Fitch's analysis.

As part of its general assessment, Fitch may consider market-based indicators, such as credit default swap (CDS) rates, bond prices, market-implied ratings, market value of equity, and share price movements. Fitch's ratings are based exclusively on the credit fundamentals of an insurer, while these market-based indicators are used to help identify relative degrees of financial flexibility, as well as being a tool to identify changes in market information and sentiment.

B. Sovereign and Country-Related Constraints

An important step in Fitch's analysis is to assess the sovereign and country risk environment, and to judge if this places any constraints on the rating.

The table below highlights how insurance ratings can relate to, and possibly be, constrained due to either a Country Ceiling or the credit profile of a sovereign. Further details are provided in the criteria documents *Country Ceilings* (August 2016), *and Country-Specific Treatment of Recovery Ratings* (October 2016) available on www.fitchratings.com.

Country Ceilings are not ratings, but instead are a key analytical input and constraint on the foreign-currency ratings of entities and obligations originating in the sovereign's jurisdiction. They are developed by Fitch's Sovereign ratings group in concert with the setting of a country's sovereign ratings.

Sovereign ratings speak to the creditworthiness of a government and its ability to meet its obligations. Sovereign ratings are typically assigned to both a government's local currency and foreign currency obligations. When governments experience financial pressures, at times this can affect the credit quality of all of the entities located in that country since such pressures often relate to economic weaknesses or systemic issues. The impact of these pressures can vary materially among entities in the country.

None of the constraints discussed in this section apply to national ratings. See *Section VI-F* for a discussion of how sovereign constraints can affect notching.

Figure I-1: Sovereign and Country Ceilings Summary

Basic Constraints	Impact on Attainable Rating
Country Ceiling	**FC Rating:** Places cap on all FC ratings in a country to reflect Fitch's view on risk of transfer and convertibility (T&C) risks due to potential imposition of foreign exchange controls in periods of sovereign crisis. In very select cases, an entity can be rated above the Country Ceiling if it is structurally shielded from T&C risks (i.e. significant assets outside country, foreign strategic partners willing and able to support, etc.). **LC Rating**: Not subject to Country Ceiling since not exposed to T&C risks.
Sovereign Rating	**FC and LC Ratings:** Very strong entities can be rated above the applicable LC Sovereign rating if they are judged to be sufficiently strong to withstand a sovereign crisis. Insurance organizations typically will be rated no more than 1–2 notches above the LC Sovereign, but only if: a) their profile otherwise implies a higher rating than the sovereign, b) the insurer is not directly exposed to issues constraining the Sovereign rating level, and c) the insurer does not holds high levels of government debt. Fitch notes in many emerging markets, government debt can dominate insurers' portfolios, making it less likely to rate above the Sovereign in such cases. However, in select cases, Fitch would allow insurers with very strong credit profiles, coupled with sizeable international business diversification (measured at 20% or more of the net premiums from sources outside of its home country on a sustained basis), to exceed the sovereign rating by a maximum of one notch, even if the insurer had large government bond holdings. In addition, the FC and LC ratings of an insurer may also be rated above the LC Sovereign rating if it benefits from support by a strong foreign shareholder.

Other Considerations	Impact on Attainable Rating
Insurer Financial Strength (IFS) Ratings	IFS ratings are typically not specifically designated as LC or FC. It is not uncommon for policyholder obligations to be in multiple currencies. When LCs dominate, the IFS rating will be treated as a LC rating per above. When FCs are material (i.e. estimated to be consistently greater than 25% of total policy obligations[a]), the IFS will be rated as a FC rating.

[a]Based on nonlinked reserves for life and net premiums for non-life, as a proxy. FC – Foreign currency. LC – Local currency.

C. Industry Profile and Operating Environment

Strong regulatory oversight, plus a fundamental business need for financial strength, together create an operating environment that drives insurance company management to pursue business strategies consistent with investment-grade, or secure, IFS ratings in developed markets.

The purpose of insurance regulatory law is to protect insurance consumers and policyholders. Functionally, this involves preserving solvency, approving products, licensing distributors and monitoring market conduct. In almost all jurisdictions, regulators impose minimum capital standards, place some restrictions on capital movements, define minimum risk management frameworks and specify financial reporting requirements. This level of prudential regulation typically results in relatively high barriers to entry.

Because insurers provide a promise to pay policyholders in the event of a claim, the financial strength of the insurer is an important consideration for buyers and distributors. Therefore, insurers have a business interest to manage their activities to achieve a strong financial and operating profile. This is particularly the case for companies that sell complex products to sophisticated customers. As a result of regulatory oversight and the business need for financial strength, insurance company defaults are rare.

Though the operating environment for insurance companies generally promotes attainment of high levels of financial strength, there are some differences with various industry segments. Organizations that operate in segments of the insurance industry that are viewed as higher risk may be rated lower than those operating in lower risk segments, all else equal. For example, Fitch has no title insurer rated above ‘A’ for IFS, but a number of life and non-life insurers, especially mutuals, are rated well above this level. This difference in part relates to the greater diversity among many life and non-life companies compared with the monoline nature of title insurance.

A more detailed discussion of how the industry profile and operating environment is assessed for some of these sectors follows.

Non-Life Insurance

The typical IFS rating range for non-life insurers in developed markets is in the ‘AA’ and ‘A’ categories, based on this sector’s environmental characteristics.

Many non-life insurers in developed markets have strong capitalization, good financial performance and generally high-quality investment portfolios. Some insurance products sold by non-life insurers are required by law (i.e. motor insurance) and others are in practice treated as required (i.e. property). Therefore, policyholder demand is strong and less variable than other spending decisions. Variability tends to be around limits and coverage purchased rather than the decision to obtain insurance cover, or not. Unlike life insurance, since non-life products are bought rather than sold, the threat of substitute products is not a significant risk for non-life insurers.

Non-life insurers are subject to competition, which is the key driver for the underwriting cycle. Competition increases the supply of insurance and reduces the price of insurance products. As prices decline, capital leaves the market, reducing competition and allowing premium rates to rise again. The volatility in results caused by the underwriting cycle is a key risk facing non-life insurers and needs to be managed in conjunction with other profitability drivers such as investment returns and the ability to release surpluses embedded within previously established loss reserves.

Since capital efficiency is a goal of many management teams and investors, stock non-life insurers rarely carry enough excess capital to support ‘AAA’ IFS ratings. Non-life insurers that have a narrower product or market focus could fall below the ‘A’ category IFS ratings.

Life and Annuity Insurance

The typical IFS rating range for life insurers in developed markets is in the ‘AA’ and ‘A’ categories, based on this sector’s environmental characteristics.

Many life insurers in developed markets have diverse business profiles, strong capitalization, good liquidity and generally high-quality investment portfolios. Many insurance products sold by life insurers are long-term promises to pay with predictable cash flows and limited withdrawal risk. This stability allows life insurers to hold investments during periods of capital market distress, to adjust product offerings or pricing to reflect experience and to manage through changing market or regulatory environments. Offsetting this favorable characteristic is the discretionary nature of life industry product sales. Since products are sold rather than bought,, new business may depend on the economic environment, attractiveness of substitute products and skill of the distributor.

Since capital efficiency is a goal of many management teams and investors, stock life insurers rarely carry enough excess capital to support ‘AAA’ IFS ratings. Life insurers that have a narrower product or market focus could fall below the ‘A’ category IFS ratings.

Reinsurance

The typical IFS rating range for reinsurers is in the ‘AA’ and ‘A’ categories, based on this sector’s environmental characteristics.

Reinsurers that operate in developed markets are typically well-capitalized companies with conservative investment strategies and prudent reserving strategies. Differences can be drawn between top-tier reinsurers that are large and well diversified by line of business and geography and smaller niche reinsurers that specialize in a limited number of business lines. This can lead to higher levels of volatility in results for the specialized reinsurers than their more diversified peers.

Companies operating in the reinsurance market face several unique challenges tied to greater distance from the underlying risk exposure. In addition to the general risks faced by non-life and life insurers, key reinsurance industry risks include potential liquidity needs for collateral requirements, the continued threat of capital market alternative reinsurance products, low entry barriers, reliance on cedants for reserving and pricing data, volatile loss exposure from property or liability excess of loss reinsurance, and heavy dependence on concentrated broker distribution. In addition, life reinsurers need to develop and maintain unique underwriting expertise as well as face possible significant exposure to pandemics or other mortality catastrophes.

Underwriting capacity provided through scale and credit strength play much larger roles for reinsurers in generating competitive advantages than in the primary insurance sector. Given that reinsurance is used more extensive among non-life than life insurers, the non-life reinsurance industry is larger and, thus, presents more market opportunities than the life reinsurance industry.

Large global diversified reinsurers can achieve ratings in the ‘AA’ category, but smaller, more specialized reinsurers are unlikely to achieve ratings higher than the ‘A’ category.

Title Insurance

The typical IFS rating range for U.S. title insurers is in the ‘A’ and ‘BBB’ categories, based on this industry sector’s environmental characteristics.

U.S title insurers are constrained by regulation to sell only title insurance coverage. Therefore, the monoline nature of these companies limits their overall creditworthiness. Some companies sell ancillary products and services through nonregulated affiliates. Favorably, title insurance coverage is required to complete real estate transactions, so demand is fairly predictable. The threat of substitute products is not a significant risk for title insurers.

Key industry risk factors include high levels of fixed costs; high exposure to cyclicality tied to the real estate market activity; general exposure to fraud-related activities among agents; pricing and reserving uncertainty; and increased industry oversight. Other risks include intense competition among major players and the commodity nature of the product.

The handful of large national players can achieve IFS ratings in the ‘A’ category. Regional insurers are more likely to achieve ‘BBB’ category IFS ratings. Title insurers with a very narrow geographic focus could fall below the ‘BBB’ category IFS ratings.

Accident and Health Insurance/U.S. Managed Care

The typical IFS rating range for U.S. health insurers is in the ‘A’ and ‘BBB’ categories, based on this sector’s environmental characteristics.

Fitch divides the industry into two groups the commercial market (consisting of the individual and employer group markets) and the primarily government-funded Medicare and Medicaid markets. The rating ranges for health insurers that primarily compete in the Medicare or Medicaid markets are lower those for health insurers that primarily compete in the commercial market. Fitch views the Medicare and Medicaid markets as more affected by government intervention and less able to generate the profits and capital stability of commercial market players.

Fitch considers the U.S. health insurance industry to be mature and highly competitive. Entry barriers are high due to the need to develop provider care networks and scale. Competition is based heavily on pricing as product differentiation is difficult to develop and maintain. Pricing power is limited by intense competition in the commercial market and the role of government in the Medicare and Medicaid markets.

The sector's key credit risks include regulatory risk derived from the government's prominent role in both the commercial and Medicare and Medicaid markets; reliance on third parties to provide medical care and services underlying the sector's products; a widespread willingness to operate at financial leverage levels that Fitch views as moderately aggressive; and the sector's acquisition orientation. These risks are partially mitigated by consistent product demand, generally predictable utilization trends, stable earnings, high-quality investments and short-duration and stable reserves.

Considering all of these factors, health insurers' ratings are effectively capped at the 'AA' level due to Fitch's view that the government's current prominent role, and potentially even larger role under various scenarios, effectively prevent the sector from exhibiting the stability and profitability characteristics required to support 'AA+' or 'AAA' IFS ratings. Only the largest, most profitable health insurer could achieve IFS ratings at the 'AA' and 'AA–' levels.

Most commercial writers would achieve ratings in the 'A' and high 'BBB' categories. Additionally, the potential and probable rating ranges for health insurers that primarily compete in the Medicare or Medicaid markets are in the 'BBB' category and the lower end of the 'A' category.

Takaful

The typical IFS rating range for takaful operators is in the 'BBB' category, based on this industry sector's environmental characteristics.

Fitch views most takaful operators to be constrained by underwriting capacity and are more susceptible to profit and capital volatility given their smaller book of business compared with their conventional counterparts. Unlike conventional insurance, takaful companies must comply with Islamic principles when carrying out takaful business. Takaful operators do not have a standard global operating model and each structure may involve different underlying contractual arrangements. As a result, each structure has to be reviewed individually, such as the transferability, accessibility of funds, loss bearing features, fees and split of surplus between the Takaful fund(s). Takaful operators that primarily compete in the same business lines as conventional insurers generally tend to have a lower rating level.

Fitch does not approve, certify or evaluate Shari'ah compliance. Rather, Fitch seeks to understand the composition of, and extent of interaction between, the Shari'ah Council and the management board for an effective Takaful operation.

The sector's key credit risks include regulatory risk derived from the evolving capital standards to increasingly manage takaful operators' underwriting capacity; intense market competition among takaful players and conventional counterparts; investment risk tied with lower-quality assets given the investment restrictions associated with Shari'ah, especially in markets with limited availability of Sukuk investments; and reinsurance risk where reinsurance counterparty risk/collectability could be a concern for those takaful players that use lowly rated retakaful providers to gain Shari-ah compliance. These risks are partially mitigated by ongoing government support in certain regions to grow the sector, growing product innovation and distribution coverage, favorable demographics, and public's growing acceptance of takaful model along with higher purchasing power.

Considering all these factors, most takaful operators would achieve ratings in the 'BBB' category given the unique business characteristics associated with Shari'ah principles and evolving business landscape. A handful of large, well-capitalized and consistently profitable takaful companies can achieve IFS ratings at the 'A' category.

Mortgage Insurance

The typical IFS rating range for mortgage insurance (also known as lenders mortgage insurance [LMI], private mortgage insurance [PMI] or mortgage guaranty insurance) is currently from the 'A' through the 'BBB' categories based on this sector's environmental characteristics. If recent improvements in market fundamentals and operating earnings prove sustainable, Fitch expects the typical rating range would become 'A' over time.

Mortgage insurers tend to be small to midsize insurers, compared with other non-life insurers, with a narrow specialty focus. In some markets, mortgage insurers are restricted to writing only mortgage insurance and no other lines. Mortgage insurance has a significant presence in only a few countries.

The mortgage insurance sector's key risks include macroeconomic risks (inflation, employment and interest rates) and competition (including competition from government agencies in some markets, most notably the U.S.). Underwriting results can be volatile with periods of strong profitability interspersed with periods of severe losses.

Financial Guaranty

The typical IFS rating range for commercial-oriented financial guarantors is in the 'A' category, based on this sector's environmental characteristics.

Ratings assigned by Fitch encompass various types of financial guarantors. These include U.S.-based commercial guarantors whose portfolios are focused on lower risk U.S. municipal risks, as well as public-sponsored guarantors linked to supranationals, such a multilateral development banks or governments that may focus on corporate risks in emerging or developed markets.

Prior to the financial crisis, most financial guarantors carried 'AAA' IFS ratings; Fitch no longer considers 'AAA' an appropriate IFS rating in the commercial financial guaranty industry. This reflects the industry's monoline focus, the high sensitivity of the business model to even modest perceived changes in financial strength and the industry's limited financial flexibility under stress.

IFS ratings of public-sponsored guarantors could be assigned at the level of the sponsoring organization, if support is strong and explicit. In select cases, this could allow for ratings up to 'AAA' if the parent/sponsoring organization is rated 'AAA'.

D. Business Profile

An insurance company's business profile significantly influences not only its current creditworthiness, but, more importantly, its ability to sustain its creditworthiness longer term. Assessment of business profile considers the insurer's competitive positioning within its primary business segments (including the absolute size of its capital and premiums/revenues), the types of business risks an insurer faces and diversification of those risks. Inherent weakness or excessive riskiness of the business profile can effectively limit an insurer's rating regardless of other aspects of the insurer's financial profile.

In many but not all cases, Fitch notes a strong positive correlation between the strength of an insurer's business profile and its absolute size and scale.

Competitive Positioning

The strength of an insurer's competitive positioning within its key business lines can have a significant impact on its ability to sustain its desired levels of financial performance and thus its overall financial strength. Fitch's view of competitive positioning is influenced by the company's operating scale, brand strength, franchise value, service and distribution capabilities.

In most insurance markets, operating scale directly affects operating efficiency; economies of scale; spread of risk; and the ability to reinvest in the business, which can result in competitive advantage. Operating scale is viewed at both the business unit level and on a consolidated basis, and is defined by absolute business volumes (measured by premiums and/or assets) by absolute size of capital and by relative market share. It is important in Fitch's assessment to understand the extent to which an insurer has leveraged its large size to gain competitive advantage or how its small size has influenced its ability to compete effectively in its chosen businesses.

Details at the sector level with respect capital and premium/revenue benchmarks can be found in various Fitch Sector Credit Factor reports at https://www.fitchratings.com/site/criteria/fi.

Brand strength, franchise value and distribution can have a significant impact on the volume and quality of business generated and can act as a barrier to entry in several key business lines. Brand strength and franchise value reflects the company's reputation and customer affinity, which can directly affect the insurer's ability to retain existing business and attract new business. In many business lines, strength of distribution directly affects product risk and pricing power. Finally, an insurer's distribution channels can directly affect exposure to regulatory and reputation risk.

Business Risk Profile

The insurer's business risk profile is based on risks associated with the company's main business lines. Key business risk factors include the breadth of products, variability of premium volumes, volatility of performances, distribution channels and the regulatory environment in each of the company's primary markets. The nature of the products and distribution approaches chosen by a given insurance organization can both amplify and mute these noted elements of business risk.

Accordingly, a critical aspect of understanding business risk is assessing how the company's specific operating strategies mitigate and/or magnify risk exposures within the company's chosen businesses, particularly in a stress scenario.

Diversification

An important aspect of Fitch's assessment of business profile is diversification within and between key business lines and markets, including distribution channel, and how that diversification contributes to the stability of the insurer's revenues and earnings. Business concentration can expose the insurer's business risk profile to unexpected adverse market developments or changes in the political/regulatory environment. While diversification across markets, products, distribution channels and geographies can be a credit positive by aiding stability in moderately stressful conditions, Fitch recognizes that seemingly diverse businesses can become more correlated in extreme events.

Categories

Insurers that are categorized as having a "very strong" business profile typically are the largest companies in their chosen markets with low business risk profiles and a high level of diversification. Fitch believes that these companies possess sustainable competitive advantages that positively affect the ability to attract and retain business, access/control distribution, and generate consistent earnings and capital without taking on undue risk.

Figure I-2: Ratings Range Based on Business Profile

Insurers that are categorized as having a "strong" business profile typically lack some of the "very strong" operating profile characteristics described above. These companies possess a track record of competing effectively in their chosen markets. They are typically medium-sized in terms of business volume or capital; have a more moderate business risk profile; and/or have reasonable, yet a lesser level of diversification. Their ability to sustain competitiveness under significantly deteriorating market conditions is less clear.

Insurers that are categorized as having a "moderate" business profile typically lack the operating scale of many larger competitors and are small in absolute size; have more limited diversification; and/or have large exposure to riskier, underperforming markets or business lines. Smaller and more narrowly focused companies are typically in this category. Such companies are viewed as vulnerable to deteriorating market conditions or heightened competition.

Finally, insurers that are categorized as having a "weak" business profile are viewed by Fitch as highly vulnerable to deteriorating market conditions or heightened competition from better positioned or larger competitors. These companies are typically very small and/or narrowly focused, or have recently suffered from an adverse change in the ability to compete, and not possessing any clear ongoing points of competitive distinction.

Interpretation of Tables

In arrow tables such as *Figure I-2* above, a thicker band indicates a probable rating range in which a majority of companies would be expected to reside.

A thinner band extending out to the arrows reflects the full range of ratings that could theoretically be achieved.

A smaller number of companies with more unique circumstances would fall in the ratings range represented by the area between the arrows and thicker band.

E. Ownership

Ownership speaks to the evaluation of the impact of ownership from the perspective of the rating unit, as defined by Fitch at the beginning of the ratings exercise. Ultimately, Fitch's goal is to assess if ownership is neutral, favorable, or unfavorable to the rating.

Mutual Versus Stock (Public) Ownership

Both public and mutual ownership are considered neutral to the rating, except at the 'AAA' level, where public ownership effectively caps a rating at 'AA+'. While public ownership typically offers higher levels of financial flexibility and access to capital, mutual ownership offers fewer conflicts in owner and creditor interests.

Fitch currently does not, nor does it anticipate, assigning 'AAA' IFS ratings to insurance companies other than those owned under the mutual form of ownership (and even then, only in rare cases). Fitch believes that the need to meet shareholder return hurdles, together with the marginal (if any) competitive advantages of being rated in the 'AAA' category versus the 'AA' category for IFS, imply that 'AAA' rating levels generally do not make economic sense for stock companies in the non-life sector. Mutual insurers, on the other hand, have greater incentives to hold excess capital and liquidity positions, or employ other conservative risk management measures, since returns on capital are a lower priority.

This is illustrated in the table below for life and non-life insurers in developed markets.

Figure I-3: Ratings Range Based on Ownership Form

Private Ownership

Ownership of an insurance organization by a private firm — for example, a hedge fund or private equity firm, bank or corporate/industrial entity — can be neutral, positive or negative for the insurance ratings, depending on unique circumstances.

The impact can be positive if the private owner is higher rated and would be expected to support the insurance group. This would be most likely if there were perceived synergies related to the ownership, such as in a bancassurance situation.

The impact can be negative if the parent is rated lower, and/or for whatever reason would be expected to govern the insurance group in a manner to increase risks, to remove capital or to expose the insurer(s) to non-insurance risks within the parent structure.

Supranational Ownership

Ownership of an insurer by a supranational organization, such as a development bank, can be neutral, positive or negative. Supranational ownership can be positive if the supranational is highly rated and can be expected to support the insurer. Conversely, supranational ownership can be a negative if the supranational manages the insurer in order to simply meet political goals of the sponsoring governments, and doing so results in a weakened stand-alone financial profile. For example, if the insurer is managed to meet weak capital targets and/or severely underprices its products.

Additionally, insurers with supranational ownership, similar to mutual insurers, may feel less pressure to lever up in order to meet return on capital targets. Also, in some cases, an insurer owned by a supranational may be exempt from currency exchange controls by its sponsoring governments.

Fitch applies supranational support criteria to assess the impact of ownership by a supranational on an insurance organization. Criteria detailed in this report are used to provide the stand-alone assessment (see *Section V*), which is also known as the “intrinsic rating” under supranational nomenclature (see *Supranationals Rating Criteria*, July 2016).

Rating Unit Defines Perspective

If Fitch’s ratings evaluation encompasses a parent company’s debt ratings as well as all (or most) of the subsidiary insurance company IFS ratings, the rating unit would likely be defined as the organization as a whole. In such a case, ownership would be considered based on ownership of the ultimate parent company. This could encompass public ownership, mutual (policyholder) ownership, or some form of private ownership (another company, private equity, government, etc.).

On the other hand, if the rating unit is defined as one or more insurance subsidiaries within a broader organization (insurance or non-insurance), ownership would be first evaluated based on the nature of the direct, private ownership of that insurance company. In such a case, Fitch would consider the impact of how the insurance company fits into the organization, as discussed above. If appropriate, Fitch would also consider the ultimate ownership of the immediate parent.

Distinction from Group Rating Methodology and Notching

Fitch notes that the evaluation of ownership is distinct and different from the application of Fitch’s Group Rating Methodology (*Section IV*). The latter speaks to application of ratings to various operating company members of an insurance organization based on their relationship to each other. Ownership as defined in this section speaks to parentage.

The discussion of ownership here, too, is distinct from the establishment of a holding company rating relative to that of its operating company subsidiaries. Holding company notching is discussed in *Section VI-C*.

F. Corporate Governance and Management

The governance and management of an insurance organization can influence all of the other key credit factors discussed in this section and Fitch's assessment of management/governance overlaps with its assessment of a company's overall fundamental credit profile. However, there are additional, specific assessments that may be conducted by Fitch related to an organization's management and governance.

Good governance practices will not increase a rating, all other factors being equal. However, more limited governance practices, including either jurisdictional or issuer-specific corporate governance issues, can result in lower ratings than typical quantitative and qualitative credit factors may otherwise imply. This is demonstrated in the table below for life and non-life insurers in developed markets, which simply illustrates that weakened governance can materially reduce ratings. In some cases, corporate governance can be so ineffective that Fitch is not able to rate the insurer.

Figure I-4: Ratings Range Based on Corporate Governance and Management

Fitch evaluates both jurisdictional and issuer-specific characteristics. Those elements of governance that would negatively affect insurance industry ratings include:

- A substantive lack of board independence or planning activities by the board.
- A management team that is viewed as ineffective, key members of management that are guilty of work-related civil or criminal offenses, or management that has blatantly ignored board risk tolerances on multiple occasions.
- Major audit-related issues, such as multiple material weaknesses in the internal control environment, no audit opinion or unfavorable opinion, financial statements are consistently late, or there is a change in the auditor due exclusively to major disagreements on material accounting treatments. Fitch tends to become aware of audit-related issues when financial statements with unfavorable opinions are published, or when issuers are unable to publish financial statements as scheduled. The ratings process does not typically predict such events.
- Related party transactions appear to be highly suspect.

Less significant weaknesses in any of the above areas could potentially constrain ratings.

In addition, Fitch would usually expect well-managed and well-governed insurance companies to have effective risk management processes. Examples of areas that analysts may take into consideration with respect of an organization's risk management are:

- Management's appetite for risk and communication through the organization.
- The independence of any risk management function as well as senior management's understanding and involvement in risk management issues.

- The perceived effectiveness of processes and, in some cases, tools to monitor and control risks relative to the organization’s risk appetite.
- Whether all risks are managed centrally or can be easily compiled to establish an enterprise wide view of risk.

Fitch is not in a position to audit risk management systems, and the agency generally only comments publicly on risk management where it is viewed as a significant rating driver or outlier. In situations where management does not interact with Fitch, the evaluation is typically based on historic performance, peer comparisons, and/or market intelligence.

G. Capitalization and Leverage

Fitch's analysis of the capitalization of an insurance organization is done from several perspectives and includes a review of the following:

- Capital adequacy ratios (CARs), which measure the strength of regulatory capital (or similar measurements) relative to the risk exposures of the insurance operations. One example is Fitch's Prism model used for life and non-life insurers in the U.S., EMEA, and Asia.
- Financial leverage ratios (FLRs), which measure the use of debt or debt-like hybrid securities to finance both long-term capital and short-term liquidity needs. A key focus is on the financing of regulatory capital, and thus FLRs typically exclude "match funded" or operating debt.
- Total financing and commitments (TFC) ratio, which is designed to measure the total debt, financing, and capital markets footprint of an organization and its overall reliance on ongoing access to funding sources.

The form of the above ratios can vary across different insurance sectors, as well as across different countries and jurisdictions. The latter may reflect differences in regulatory reporting standards and conventions.

For example, CARs in the U.S. are typically measured at the statutory operating company level, reflecting a regulatory focus on subsidiary-level capital. In EMEA, CARs are often measured at the consolidated group level (in addition to the company level), reflecting a greater focus on group regulation. Fitch considers differences in regulation, and the incentives this places on how capital is managed, when interpreting the above ratios.

In the U.S., the regulatory focus on insurance company subsidiary capitalization has resulted in extensive use of holding company structures, and employment of traditional forms of double leverage (i.e. issuance of debt or debt-like hybrids at the holding company, with proceeds contributed as pure equity capital to the subsidiary). Fitch recognizes subsidiary-level CARs benefit from this activity, and that review of holding company FLRs is particularly important to gauge the degree of double leveraging of capital at the parent level.

In EMEA, where group regulation is more prevalent, use of holding company double leverage is less common since CARs are often measured at the consolidated group level. However, in EMEA hybrid securities are used more extensively to augment capital levels included in CAR measurements (in the U.S. hybrids play a minimal role at the subsidiary level). In such cases, Fitch views the use of hybrids as a key source of potential financial leverage.

Capital Adequacy Ratios (CAR)

Capital provides a buffer for policyholders and other creditors, enabling the company to absorb adverse deviations in experience and represents an important part of the financial strength of an insurance organization. Forms of CARs considered by Fitch as part of its ratings analysis include:

- The agency's proprietary risk-based capital assessment tools, including components of the Prism capital model and the tool used for title insurance.
- Operating leverage ratios, such as net written premium to shareholders funds, or total liabilities to shareholder funds, which are typically not risk adjusted, except for the par-to-capital leverage ratio used for financial guarantors, which is risk adjusted.
- Regulatory capital ratios, which vary among jurisdictions.

When risk-based capital measures imply strong capital and operating leverage ratios imply weak capital, Fitch could give greater weight to either set of ratios based on its judgment. While risk-based measures are in many cases more robust, high leveraging of perceived "remote" risks, as captured by operating leverage ratios, can also result in material capital impairment if such risks were understated.

In stressed circumstances, regulatory measures can become a key consideration due to either the risk of regulatory intervention, or inclusion of the measures in various ratings triggers or covenants. In such cases, regulatory measures tend to become a more important indicator of capitalization in Fitch's analysis.

Fitch may also consider an insurer's own in-house capital model when such information is made available to Fitch. However, typically due to limitations in the robustness of the information made available, and difficulties with respect to comparisons among insurers and relative to Fitch's guidelines, results of insurers' internal models typically have little bearing on Fitch's overall capital assessment.

Select median guideline CAR ratios for life and non-life are shown below.

Figure I-5: Median Capital Adequacy Ratio Guidelines[a]

	Insurer Financial Strength (IFS)			
(x)	AAA	AA	A	BBB
Net Premiums Written to Equity (Non-Life)	0.5	1.1	1.8	2.5
Net Leverage (Non-Life)	2	3.5	5	7
Operating Leverage (Life)[b]	7	11	15	24
NAIC RBC (U.S., Life) (%)	450	375	270	200
MCCSR Ratio (Canada, Life) (%)	220	180	165	140
Regulatory/GSE Capital Coverage (Mortgage) (%)[c]	—	160	140	120
Risk-to-Capital Ratio (U.S., Mortgage)[d]	—	7	13	19
Par to Capital Leverage (Financial Guaranty)				
Very Low Frequency/Low Severity	30	50	90	150
Low Frequency/Low to Medium Severity	20	30	45	70
Medium Frequency/Mixed Severity				
Without Currency Risk	7	10	15	20
With Uncapped Currency Risk	5	7	10	16.5
High Frequency/High Severity				
Without Currency Risk	2.5	3.5	4.5	6
With Uncapped Currency Risk	2	2.5	3.5	5
Very High Frequency/High Severity				
Without Currency Risk	1.5	2	2.5	3.5
With Uncapped Currency Risk	1	1.5	2	3

[a]Fitch expects to add guidelines for Solvency II standard capital ratios once a calibration can be established. [b]Median guidelines not applicable if liabilities comprise significant separate account, with profit or universal life reserves. [c]The mortgage insurance 'BB' median guideline is 100. [d]The mortgage insurance 'BB' median guideline is 25.
MCCSR – Minimum continuing capital and surplus requirements. GSE – Government-sponsored enterprise.

Prism Capital Model

Fitch's Prism capital model contains risk-based components that are either stochastic-based or factor-based, depending on the domicile and line of business. Fitch believes neither a stochastic-based nor factor-based approach is necessarily superior to the other as long as the model is developed with rigor. The choice as to the approach used in each jurisdiction was dictated heavily by data availability.

- Target capital (TC) in Prism is derived from either the stochastic process or application of risk factors to exposure data. TC considers exposures resulting from both insurance products sold and investment activities, among other risks. Various TC values are established at progressive levels of conservatism and simulated/assumed stress.
- Available capital (AC) reflects the entity's or group's equity capital, subject to various analytical adjustments made by Fitch. These adjustments typically reflect the amount of capital available in a controlled run off during stressed economic and/or insurance conditions, and therefore do not give full credit for items such as value of in-force business.
- The "Prism Score" describes the highest TC level that is exceeded by AC. Prism Scores are described as Exceptionally Strong, Very Strong, Strong, Adequate, and Moderately Weak.

Fitch emphasizes that the Prism Score is only an indication of capital strength; as such, the Prism Score may be higher or lower than the overall IFS or IDR rating of the insurer due to the other Key Credit Factors described in this *Section I*.

Fitch continues to publish additional details on Prism as internal validation procedures are completed. To date, Fitch has published freely available model definition documents for its *Prism U.S. Non-Life Insurance Capital Model, Prism U.S. Life Insurance Capital Model* and its *Prism Factor-Based Capital Model* used in EMEA and Asia-Pacific. Refer to Fitch's website at www.fitchratings.com for the most current status on the use of Prism in the rating process.

Model documentation also exists for Fitch's capital model used for U.S. title insurers, which can be found in the freely available *Title Insurance (U.S.)* Sector Credit Factors report (see *Appendix B*).

Financial Leverage Ratio (FLR)

As defined by Fitch, FLRs are designed to capture the extent long-term capital (i.e. capital that supports regulatory capital adequacy or is used to fund acquisitions) is debt financed, or financed by debt-like hybrids. The FLR also includes debt used for short to intermediate liquidity or working capital needs (most commonly at the holding company level).

The primary FLR used by Fitch is the adjusted debt-to-capital ratio, which is defined as follows:

$$\frac{\text{Debt + Debt Portion of Hybrids}}{\text{Equity Capital + Debt + Total Hybrids}}$$

The debt in both the numerator and denominator is stated at nominal value and excludes "match-funded" forms of debt (referenced by some as "operating debt"). Such debt is excluded since it does not meet the definition above of being debt that finances long-term capital or supports liquidity. The derivation of the debt portion of hybrids is discussed in *Section IV* of this report.

By match-funded debt, Fitch refers to repos, securitizations, or other identifiable or traceable pools of financial assets held against specified liabilities. Often the assets and liabilities will be linked by contract but, Fitch will consider match-funded assets and liabilities without a contractual link.

The exact definition of equity capital used in the FLR can vary somewhat based on the financial statements used, such as U.S. GAAP, IFRS, or some other accounting basis. When information is available, common analytical adjustments made to equity capital are shown as follows:

Shareholders' equity (or equivalent), plus:

- Adjust value of fixed-income-related invested assets to book value (i.e. amortized cost or equivalent), where appropriate, due to book value accounting for liabilities
- Include Minority Interests only if "Debt" includes the debt of the majority owned entity(ies) giving rise to the minority interest
- Include Fund for Future Appropriations, Equalization Reserves and equivalent

Goodwill provides for an additional consideration. When goodwill is material, Fitch may calculate two versions of the FLR, one that includes 100% of goodwill as part of equity capital, and one that excludes goodwill from equity capital. Fitch may place primary emphasis on the first ratio when profit margins and fixed charge coverage ratios are strong, and the market value of equity capital (for publicly traded companies) is at or above book value. Such metrics would indicate that goodwill balances are likely supportable. The second version of the FLR that excludes goodwill may be emphasized when these and/or other metrics indicate that the goodwill value is less supportable.

In addition to the debt-to-capital ratio, in some cases Fitch may substitute alternate FLRs. For example, in the U.S. health sector, Fitch often considers the ratio of debt to earnings before interest and taxes (EBIT) to be the most informative FLR.

As part of a sensitivity analysis, analysts and committees may consider alternate versions of the FLR. For example, analysts may remove assets of questionable value from equity capital, add all of an issuer's hybrids, or add a portion of match-funded debt to debt. Changes to the calculation of the FLR that are material to the rating will be disclosed in related research.

In addition to reviewing the level and trend of any FLR, Fitch may also consider the make-up of the ratio. Short-term debt and debt containing covenants or acceleration triggers are generally viewed as riskier than long-term debt without covenants. Thus the mix of debt may influence Fitch views on the relative strength of an insurer's FLRs.

Rating committees may review and give weight to those FLRs deemed most relevant to the analysis at any given time. When material, this will be disclosed in related research.

Median guideline ratios for the FLR are shown in the table below.

Figure I-6: Median Financial Leverage Ratio Guidelines

	Insurer Financial Strength (IFS)			
	AAA[a]	AA	A	BBB
Adjusted Debt to Total Capital (%)	7	20	28	35

[a]The 'AAA' standard does not explicitly apply to mortgage insurance. The mortgage insurance 'BB' median guideline is 42.

Total Financing and Commitments (TFC) Ratio

Recognizing that Fitch's FLRs are defined to be narrow in scope, looking at only a certain component of debt financing, Fitch also reviews a TFC ratio.

The TFC ratio includes:

- All forms of debt, including match-funded and operating debt, as well as debt supporting long-term capital needs and liquidity and working capital needs.
- Recourse and nonrecourse securitizations.
- LOC facilities used to provide collateral/security to third parties (which are common in reinsurance transactions) and for reasons such as reserve financings.
- Various debt-like commitments, such as financial guarantees, including the full notional value of obligations related to the sale of credit default swaps (CDS); unless the issuer is a financial guarantor. The numerator of the TFC ratio for financial guarantors excludes financial guarantees and CDS since that leverage has already been captured in the par-to-capital leverage ratio.

These various values are summed and then divided by equity capital, as defined on the preceding page.

TFC helps bridge what Fitch perceives as a blurring line between “financial debt” and “operating debt,” and also captures various off balance sheet financing exposures, such as securitizations. Examples of this blurring of the line include various reserve financing activities (securitizations, letter of credit facilities, match-funded senior debt supported), embedded value securitizations, catastrophe bonds, insurance subsidiary secured borrowings, and match-funded debt issued by holding (as opposed to operating) companies.

During periods of market disruptions, and lost access to capital markets financings, such operational and off-balance sheet commitments can become a direct source of vulnerability to an organization.

Because TFC includes a mixture of highly disparate exposure types, and because the risk of these can vary greatly, Fitch does not employ any absolute standards as to targets for TFC values at any given rating level that would be applicable to all insurers in a sector. At times, however, for a given organization, rating committees may establish maximum TFC tolerances for a given rating level. This will be disclosed in related research.

When TFC levels for an organization are increasing, or appear high relative to peers, Fitch may assess the risks associated with the various exposures captured by TFC. This can include any of the following:

- The extent TFC financings and/or commitments are leveraged relative to capital.
- The vulnerability of the organization’s inability to refinance debt and other TFC commitments.
- Calls on liquidity related to TFC commitments.
- Losses to capital that could result from TFC commitments that turn sour and the leveraging impact of such losses.

It should be noted that “total” is used as a general descriptor to imply the TFC is intended to be broad based. No ratio or set or ratios can truly capture the totality of a company’s risk exposures.

H. Debt Service Capabilities and Financial Flexibility

Fixed-Charge/Interest Coverage

Interest coverage is a measure of the affordability of interest payments, and defined as EBIT/financial interest expense (excludes interest on “match-funded” debt), where EBIT is earnings before financial interest and taxes. Low levels of interest coverage can lead to lower ratings generally and/or wider notching between the operating company and holding company (when ring-fenced notching applies). EBIT is usually measured on an operating earnings basis, typically excluding realized and unrealized capital gains and losses.

However, when such items are large (especially due to losses linked to true stress in the portfolio), Fitch may also look at coverage ratios including these items. Fitch may also include realized and/or unrealized gains or losses to match other aspects of accounting treatment. For example, for U.K. life insurance companies reporting under IFRS or U.K. GAAP, Fitch includes unrealized and realized gains and losses in the numerator to reflect the treatment of liabilities, which are revalued through the income statement at each balance sheet date to reflect prevailing interest rates (rather than being stated on an “amortized cost” book value basis).

Fixed-charge coverage ratios are similar and include both interest and dividends on preferred stock or hybrid securities. For hybrids, Fitch makes no adjustments for such payments if they are deferrable, unless deferral has actually occurred.

Figure I-7: Median Fixed-Charge Coverage Ratio Guidelines

	Insurer Financial Strength (IFS)			
	AAA[a]	AA	A	BBB
Fixed Charge Coverage Ratio (x)	18	12	7	3

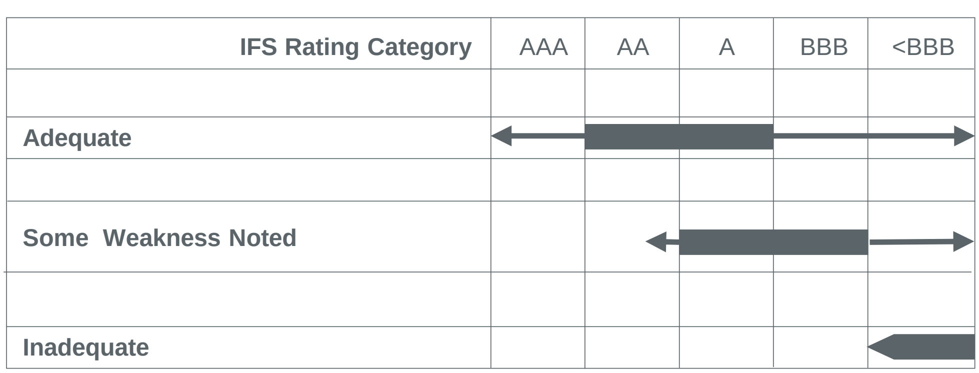
[a]The ‘AAA’ standard does not explicitly apply to mortgage insurance. The mortgage insurance ‘BB’ median guideline is 2.

In certain jurisdictions, alternate forms of coverage are also reviewed. For example, in the U.S., analysts may review the ratio of maximum statutory dividends that can be upstreamed to a holding company by a regulated operating company, relative to interest and/or fixed charges.

Financial Flexibility

Defined as the ability of an insurer to generate additional funds relative to needs, an insurer with financial flexibility is more able to access capital required for growth, strategic repositioning, or for the replenishment of losses. Companies with low leverage coupled with well-balanced

Figure I-8: Ratings Range Based on Financial Flexibility



and diverse financing sources of varying maturities are typically most financially flexible. Backup or contingent funding can prove beneficial, especially if devoid of covenants that could restrict funding under stress.

Fitch also recognizes that under stress, financial flexibility of even historically strong companies can vanish quickly. As a result of this, the agency does not assume that financial flexibility will necessarily exist for companies in stressful scenarios. *Figure I-8* highlights how financial flexibility can affect ratings, using life and non-life as examples.

I. Financial Performance and Earnings

Financial performance affects the ability to generate capital within the organization and where favorable, can positively affect the ability to absorb adverse deviations in performance as well as promoting financial flexibility.

Fitch considers not just the level of profitability but also the quality of earnings. Earnings are considered to be high quality if they are from reliable and repeatable sources such as consistent underwriting profitability. “One-off” items such as asset sales or abnormal releases from technical reserves are viewed less favorably.

An adequate level of profitability depends on the level of risk that the organization is taking. Insurers that take on a higher degree of risk would be expected to obtain a higher level of profitability in order to compensate their capital providers. On this basis, the return expected from a low-risk auto insurer would be lower than that from a higher risk catastrophe reinsurer.

Select median guidelines for financial performance ratios are shown below.

Figure I-9: Median Financial Performance Ratio Guidelines

	Insurer Financial Strength (IFS)			
(%)	AAA	AA	A	BBB
Combined Ratio (Non-Life)	80	95	103	110
Operating Ratio (Non-Life)	67	82	90	97
Combined Ratio (Mortgage)[a]	—	40	60	90
Pretax Return on Assets (Life)	1.4	1.1	0.9	0.4
Return on Equity (Life)	18	13	9	5
Return on Equity/Statutory Capital (Mortgage)[b]	—	12	8	4

[a]The ‘AAA’ standard does not explicitly apply to mortgage insurance. The mortgage insurance ‘BB’ median guideline is 125. [b]The mortgage insurance ‘BB’ median guideline is 2.

Growth

The first step in the evaluation of financial performance is to look at growth trends in premiums or assets. Fitch generally views growth at rates greater than the market or peers, especially during periods of competitive pricing pressures, cautiously from a ratings perspective. In fact, excessive growth is considered by Fitch to be one of the key leading indicators of future financial difficulties for an insurance company, and this can take on very high weighting in a rating when concerns are significant. Fitch is concerned by excessive growth, regardless of whether it is organic or obtained via acquisitions. Sharp drops in premiums or assets that can be indicative of a fastly eroded franchise are also of concern.

Measuring when growth is problematic can be challenging, and ultimately requires market-specific judgments. However, as general guidance, in most developed non-life markets, Fitch would view annual premium change greater than ±5% of the overall industry growth rate as cautionary, and for life companies, the agency would view as cautionary asset growth greater than ±10% of the overall industry growth rate.

The following are additional comments for non-life and life insurers.

Non-Life Insurers

The evaluation of underwriting profitability is the first part of the earnings evaluation review for non-life (re)insurers. Fitch's goal is to judge the overall health of the book of business and management's understanding of its risks and ability to control them.

Key areas considered include:

- Performance versus pricing margins, including impact of investment income on pricing decisions.
- Performance relative to market peers.
- Volatility of underwriting results over time.
- Expense efficiencies and impact of ceding commissions on expense ratios.

Fitch measures underwriting performance using the loss ratio, expense ratio, and combined ratio. To properly interpret these ratios, Fitch considers the company's business mix, pricing strategy, accounting practices, distribution approach, and reserving approach. Fitch examines these ratios for the company as a whole, and by product and market segment when such information is available. Fitch also looks at underwriting results on a calendar and accident year basis when such information is available.

Profits derived from investments can take the form of interest, dividends, and capital gains, and can vary as to their taxable nature. Like underwriting income, investment returns and their volatility are also correlated with the level of risk assumed.

Fitch measures overall operating profitability — underwriting and investing — by calculating the company's operating ratio, which is the combined ratio less the investment income ratio (investment income divided by premiums earned).

Life Insurers

For life insurers, Fitch looks at earnings and various measures of margin at the product line level and calculates standard profitability ratios on a consolidated basis. While strong profitability is generally viewed positively for life insurer ratings, Fitch recognizes that strong near-term profit may be the result of incremental risk taking, such as inadequate hedging, which would be negative for ratings.

Fitch also interprets profitability ratios within the context of operating and financial leverage, recognizing that high returns resulting from high leverage are a negative for ratings, and that low returns due to low leverage are actually a sign of reduced risk.

Fitch uses other quantitative measures that vary by market. For example, in select cases the return on embedded value (ROEV), new business margin, and embedded value variances are used, but only for life insurers that provide supplementary financial reporting on an "embedded value" basis. This mainly includes large life insurers in the EMEA and Asia-Pacific regions.

Wherever possible, Fitch evaluates the diversification of earnings, including the balance by market and product, between risk-based and fee-based earnings and the mix of profit from new sales versus older in-force profit to further understand the quality of earnings. In general, all else equal, earnings that are well-diversified tend to be less volatile.

In addition to profit, Fitch's review also uses growth in sales, revenue, expenses, and assets as a measure of performance. These growth trends are considered in the context of market conditions and company-specific strategic initiatives.

- Since in many markets life insurance is a mature industry, Fitch generally views modest growth in sales, consistent with market averages, as a sign of health.
- Fast growth is often a sign of aggressiveness, especially if growth is focused on new products (or new product features), and could have a negative impact on ratings.
- Sharp reductions in sales could be the sign of a weakening franchise, which could place pressure on management to take on added risks to increase sales.

Qualitative interpretations of the key drivers of growth trends are an important part of Fitch's evaluation.

J. Investment and Asset Risk

Taking investment and asset risk in a controlled fashion is typically an inherent part of the business model of any insurance company. In Fitch's assessment of asset risk for an insurer, four key areas are considered: credit risk, market risk, interest rate risk, and liquidity risk. The former two risks are discussed in this *Section I-J*, and the latter two risks are discussed in the following *Section I-K*.

Fixed-income investments tend to be the largest asset class. That said, insurers bear a varying degree of credit exposure as organizations make different choices regarding the trade-off between yield and default risk, and have differing investment opportunities in their market of origin, depending, for example, on regulatory limitations. Fitch considers the mix, composition, and credit quality of an insurers' fixed-income portfolio. Disproportionately large allocations or concentrations for a given market or rating level are viewed negatively for the rating. When market conditions are severe for certain asset classes, asset stress testing will be used to project a range of economic losses by asset class. These become inputs to pro forma ratio analysis.

While fixed-income investments dominate most insurer portfolios, a portfolio allocation to equity securities or real estate is not uncommon. Such investments may provide higher expected returns over time, but are also generally significantly more volatile. When market conditions are severe, Fitch will stress test equity and real estate investment values, taking into account the mitigating benefits of risk sharing (if any) with policyholders. The goal is to consider the pro forma impact on key financial ratios.

Equity investment positions may include positions in derivatives, hedge funds, or private equity vehicles. Concentrations in these types of investments are viewed more cautiously, as they have greater uncertainty in terms of valuation and liquidity.

Median guideline investment ratios are shown below.

Figure I-10: Median Investment Ratio Guidelines

	Insurer Financial Strength (IFS)			
(%)	AAA	AA	A	BBB
Risky Assets to Surplus/Equity (Non-Life, Mortgage)[a]	25	50	75	100
Risky Assets to Surplus/Equity (Financial Guaranty)	5	10	15	20
Risky Assets to Surplus/Equity (Life)	30	60	90	130
Below Investment-Grade Bonds to Surplus/Equity (Life)	20	40	55	70
Equities to Surplus/Equity (Non-Life)	15	40	65	100

[a]This ratio is a combination of the non-investment-grade bond, unaffiliated common stock and investment in affiliates to surplus/equity ratios. For mortgage insurance, the ratio includes investment-grade residential mortgage-backed securities in risky assets since they are expected to correlate with mortgage insurance losses. The mortgage insurance 'BB' median guideline is 125. See *Financial Ratio Definitions*.

For insurers located in speculative-grade countries, the portion of risky assets in the investment portfolio is likely to be materially higher than for insurers located in investment-grade countries. Although Fitch has not developed median guideline ratios for insurers in speculative-grade countries, it does take into account the additional investment risks.

In some emerging markets, insurers may invest in foreign assets, aiming to increase the diversification of their investment portfolio and/or to enhance yield. However, Fitch believes that a significant currency mismatch between assets and liabilities would substantially increase the volatility of an insurer's earnings and capital position. In such a case, Fitch will evaluate the company's hedging strategy. This will include high-level reviews of the impact of currency movements on earnings, and subject to data availability, reviews of the types of hedging instruments used (e.g. currency swaps, proxy hedging) and costs associated, and/or how hedges have performed historically.

The investment portfolio is evaluated in conjunction with the liabilities as part of a broader review of asset/liability and liquidity management, as discussed in the next section. This review is a greater focus for life insurers than for most non-life companies.

When available, Fitch will review issuer investment guidelines to help judge risk tolerances. Especially when investment management is outsourced to third-party managers, Fitch is also interested in understanding any controls in place to assure adherence to guidelines.

In assessing risk tolerances, Fitch pays close attention to unusual investment strategies, especially those involving esoteric investments, less liquid investments or use of concentrations by name or sector. Examples of esoteric investments include hedge funds, private equity and limited partnerships, some of which may be internally leveraged. These are all viewed as adding portfolio risk that can be potentially significant, especially in tail scenarios.

For most insurers, esoteric investments represent a small portion of their total portfolio or capital and are designed to modestly augment returns. However some companies, such as so-called "hedge fund reinsurers", take on very large, concentrated exposures in esoteric assets. In such cases, Fitch's standard risky asset ratios may become less informative, and bespoke techniques tailored to the specific investment strategy may be used to assess relative portfolio risk. These will be discussed in the relevant research.

K. Asset/Liability and Liquidity Management

Asset/liability management (ALM) and liquidity risk is most often a significant risk factor for life insurers given the high investment leverage that is often associated with this business as well as the typical product features. Strong liquidity is critical for life insurers that have a high exposure to liquid (surrenderable) liabilities, particularly for cash on guaranteed terms. For life companies with limited liquidity risk, appropriate ALM processes are still important in order to achieve profitability objectives and manage interest rate risk. These two goals — management of liquidity and management of earnings/interest rate risk — are related but do not fully overlap.

In contrast, most non-life insurers typically generate sufficient cash flow to pay current claims, so the risk of having to liquidate investments at a disadvantageous point in time is generally low. Liquidity takes on greater importance for non-life companies in short-tail insurance sectors and in the event of large catastrophe losses, as well as at the holding company level.

For companies writing reinsurance business, Fitch may also consider how any collateralization requirements for business written may affect liquidity and financial flexibility, particularly to the extent of which such requirements are dependent on financial covenants or rating triggers.

It should be noted that assessment of ALM and liquidity risks is often conducted with limited disclosures in published financial statements and notes. This can make Fitch's analysis rely on management-provided information (subject to Fitch analytical adjustments) or market-level benchmarking.

Operating Companies

Fitch evaluates liquidity at the operating company based on the marketability of investments, as well as the amount of liquid assets relative to liabilities. The manner in which the company values its assets on the balance sheet is also closely examined. Fitch also considers the amount of receivable and other balances, as well as the impact of illiquid assets such as affiliated holdings or real estate.

Median liquidity ratio guidelines are shown below.

Figure I-11: Median Liquidity Ratio Guidelines

	Insurer Financial Strength (IFS)			
(%)	AAA	AA	A	BBB
Liquid Assets to Loss/Loss Adjustment Expense Reserves (Non-Life)	200	150	125	100
Liquid Assets to Liabilities (Financial Guaranty, Mortgage)[a]	200	150	125	100
Liquid Assets to Policyholder Liabilities (Life)	85	75	60	45

[a]The 'AAA' standard does not explicitly apply to mortgage insurance. The mortgage insurance 'BB' median guideline is 75.

For life insurers, Fitch's evaluation of liquidity risk focuses on an evaluation of the liquidity characteristics of the life insurer's assets and liabilities based on an understanding of the life insurer's overall ALM approach and, where available, an assessment of the company's modeling results under a range of deterministic and dynamic scenarios. Alternative sources of liquidity to fund unexpected cash needs are evaluated based on their amount and availability.

Where liquidity risk is considered to be a very material element (such as some U.S. life insurers), the liquidity characteristics of the life insurer's assets and liabilities are evaluated to determine expected liquidity needs (to fund claim payments and surrenders) relative to liquidity sources (ability to convert assets to cash). In addition, Fitch also calculates traditional liquidity measures looking at operating cash flow and comparing liquid assets with total liabilities. Fitch may also use other quantitative measures and models to assess liquidity risk that varies by market.

Traditional ALM approaches used by life insurers to manage interest rate risk include duration/convexity and cash flow "matching" of assets and liabilities, typically within some target range. More sophisticated approaches involving complicated hedges using derivative instruments increase exposure to operational, counterparty and basis risk.

Challenges in managing interest rate risk can negatively affect earnings for a life insurer over an extended period of time, and in some cases can affect capital (depending on local accounting conventions). This is especially true for products with relatively high interest rate guarantees and long contract terms.

Financial statement disclosures in most markets provide only limited insights into relative interest rate risk. Thus, Fitch's general understanding of interest rate risks inherent in certain product types by market, as well as a company's overall and relative historical performance under different rate conditions, play a role in a high level assessment of interest rate risk.

When available, Fitch will also consider estimates of the duration gap between assets and liabilities to help judge exposure to interest rate risk. While various duration gap calculations may be considered, Fitch prefers to focus on calculations that measure the gap between the estimated duration of interest-sensitive liabilities (i.e. excluding unit-linked, nonguaranteed separate accounts and most non-life businesses) and the estimated duration of assets specifically backing those liabilities (i.e. excluding surplus assets). When information is available, Fitch's assessment of the duration gap will consider hedging.

Median duration gap guidelines are shown below.

Figure I-12: Median Duration Gap Guidelines (Life)

	Insurer Financial Strength (IFS)			
(Years Stated in Absolute Value)	AAA	AA	A	BBB
Duration Gap	<0.5	0.5–1.4	1.5–2.9	3.0–4.9

Note that Fitch generally believes equities and real estate are inferior asset types to match against longer-term interest-sensitive liabilities, compared with traditional fixed income assets, since neither offers a defined payment upon a stated maturity. This makes the duration of such assets difficult to define. Thus, when equities and real estate make up a material portion of assets supporting longer-term interest-sensitive liabilities, Fitch will consider the sensitivity on the overall estimated duration gap measurement using a range of duration assumptions for equities and real estate. These will typically vary between two and 15 years.

Recognizing that the duration gap has limitations as a risk measure, and in its comparability across insurers (i.e. being heavily assumption-based, generally reliable only within a band of moderate changes in interest rates and not offering insight into cash flow matching), when information is available, Fitch will consider additional forms of analysis. This will include assessing scenario analysis provided by insurance company management done to comply with regulatory standards, or other internal analysis deemed relevant to the particular situation. When insurer-specific duration gap information is not available, Fitch will often consider market average information to be a reasonable proxy.

Non-life (re)insurers are less likely to maintain tight duration matches between assets and liabilities relative to life counterparts that manage “spread” or nonlinked businesses. An asset duration that is longer relative to liabilities creates an exposure to a decline in economic value as interest rates increase. Generally, a mismatch is not a major concern for a non-life insurer with adequate cash flow, high-quality investments, and a buy and hold investment approach. In periods of economic stress brought on by high inflation, non-life insurers with longer duration mismatches will face greater asset and capital volatility.

For lines exposed to catastrophic loss, such as property reinsurance, Fitch reviews how an insurer would potentially generate sufficient liquidity to fund claim costs at various modeled probable maximum loss levels. Comparisons to actual historic losses alternatively will be considered when modeled losses are not available.

Holding Companies

Analysis of liquidity at the holding company level differs from that at insurance operating companies, when holding companies essentially exist solely to own various operating subsidiaries and conduct no insurance business themselves. Typically, if liquidity problems develop in an insurance organization, they are most likely to occur at the holding company level.

Unlike operating companies, holding companies do not normally carry significant amounts of liquid assets, and are much more reliant on generation of cash flow as a key source of liquidity. Maintenance of cash balances at a conservative multiple of annual cash needs, such as debt service requirements, is generally viewed as prudent.

Refinancing of maturing debt is a key source of liquidity risk at many holding companies. Thus, Fitch will review debt maturities by year together with current short-term debt balances. Unexpected maturities or payments due to covenant triggers and/or guarantees being enacted negatively affect Fitch’s assessment of financial flexibility.

Following are the key sources and uses of cash flow that Fitch will consider in assessing holding company liquidity.

Figure I-13: Holding Company Liquidity — Sources/Uses

Sources	Uses
Earnings on Holding Company Invested Assets	Cash Operating Expenses
Regulated Dividends from Subsidiaries	Shareholder Dividends
Nonregulated Dividends from Subsidiaries	Preferred Dividends
Long-Term Debt Issuance	Interest Expense
Commercial Paper Issuance	Capital Contributions to Subsidiaries
Equity Issuance	Long-Term Debt Maturity
Bank Lines Drawn	Commercial Paper Maturity
Tapping Cash or Liquidating Investments	Share Repurchases
Other Sources	Bank Lines Due (Including Covenant Triggers)
	Pension Plan Funding
	Contingencies
	Other Uses

L. Reserve Adequacy

Loss reserve adequacy is a critical part of analyzing a non-life (re)insurer, but it is also one of the most challenging areas of analysis and one most susceptible to variability in results. A demonstrated ability to maintain an adequate reserve position is a crucial characteristic for a highly rated insurer.

The greatest challenge is that the data available to conduct the review, whether information available from statutory filings (such as Schedule P for U.S. insurers or Prudential Regulation Authority returns in the U.K.) or tables available from management as used for internal analysis, may be both limited in availability and difficult to interpret. When some of the detailed information referenced in this section is not available to Fitch, Fitch's assessment of reserve adequacy will be reliant on Fitch's assessment of the general risk of the product portfolio based on lines of business written and their general susceptibility to reserving issues (i.e. long versus short tail), as well as the stability/volatility of historical underwriting performance including the impact of any reported historical reserve development.

Fitch's review also focuses on any uses of reserve discounting, financial or finite reinsurance, or accounting techniques that reduce carried reserves and potentially distorts comparability.

Fitch evaluates loss reserves from four perspectives:

- Profile
- Growth
- Experience
- Adequacy

Profile

In reviewing the reserve profile, Fitch judges how important reserve risk is as a credit factor in the overall rating. Reserve leverage relative to both capital and to incurred losses is a primary consideration in this assessment (see ratio definitions on page 37). Higher reserve leverage tends to be common with longer-tail writers, and implies a greater weighting of the reserve assessment in the final rating, as per the table to the right.

Figure I-14: Implied Weighting of Reserves in Rating

	Reserve Leverage		
Loss Reserves/ Incurred Losses	**<1.0**	**1.0– 1.5**	**>1.5**
>2.0	Medium	High	High
1.0– 2.0	Medium	Medium	High
<1.0	Low	Medium	Medium

Growth

Fitch evaluates if loss reserves are growing at a rate that is commensurate with growth in underwriting exposures. Reserve growth that falls short of growth in underwriting exposures indicates increasing degrees of caution, per the table above. In such a case, the nature of such growth will be assessed more closely by Fitch to determine if the indication is indeed negative or not.

Figure I-15: Reserve Growth

Ratio	Neutral	Caution	High Caution
Paid/Incurred Losses	<1.05	>1.05	>1.50
Change in Ratio of Reserves/ Earned Premium (%)	>(5)	<(5)	<(15)

Fitch also considers the rate of overall growth in premiums, relative to market averages, in its evaluation of *Financial Performance and Earnings* (*Section I-I*).

Experience

Figure I-16: Reserve Development

Ratio (%)	<0%	0%–5%	5%–10%	>10%
One Year Development Ratios	Neutral	Slight Caution	Caution	High Caution
Five Year Development Ratios	Positive	Slight Caution	Caution	High Caution

Evaluating development trends in reserves provides an indication of a company's recent and historical ability and proficiency in setting reserves. Consistent favorable development is viewed as a positive in the reserve assessment, whereas adverse development (or reserve strengthening) indicates increasing degrees of caution.

Adequacy

Figure I-17: Carried Reserves/Estimated Midpoint

Ratio	Implication
>105%	Positive
100%– 105%	Neutral
90%–100%	Moderate Caution
80%–90%	Caution
<80%	High Caution

Finally, when information is available, Fitch will make an assessment as to the overall adequacy of current carried reserves. This assessment can be based on any combination of reviews of actuarial reports, disclosures by management of internal or independent actuarial estimates of reserving point estimates or ranges, and Fitch own analysis of loss experience data. When reserves are carried below midpoint or best estimates, this implies increasing levels of caution, whereas reserving at levels above these estimates is a credit positive, per the table above.

Rating Implications

In most developed markets, Fitch would view rankings in the "neutral" range with respect to reserve growth, experience and adequacy to imply that reserves meet an 'A' IFS rating category standard. Companies with several cautionary indications (where follow-up analysis indicates risk of a negative outcome) would be viewed at a 'BBB' standard or lower with respect to reserves, and those with one or more high cautionary indications (and risk of a negative outcome) would be viewed at a non-investment-grade/nonsecure reserve standard (i.e. 'BB' or lower).

For a reserve indication to rise to 'AA' or 'AAA', the growth indication would need to be neutral, and the company would need to show enduring positive indications with respect to both experience and adequacy indicators. 'AAA' level reserve adequacy is uncommon.

Other Sectors

The ratios described in this section generally apply to most non-life insurers that focus on property/casualty insurance products. In certain other non-life sectors (e.g. financial guaranty, mortgage or health insurance), where loss reserves adequacy is typically not as significant to the analysis, alternate and often times simpler reserve ratios may be substituted and discussed in applicable ratings commentary.

M. Reinsurance, Risk Mitigation and Catastrophe Risk

Various forms of risk protection are available to insurers, including reinsurance, risk securitization, industry loss warranties (ILWs), or capital markets products such as options, forwards, or futures. Fitch's goal is to determine if capital is adequately protected from large loss exposures and to judge if the ceding company's overall operating risks have been reduced or heightened. Certainly, tight product designs that limit risks, together with diversification, can act as a first line of defense.

- Where reinsurance contracts are considered to reduce risk materially, this would be viewed positively for a rating.
- Over-reliance on specific forms of risk mitigation, such as quota-share reinsurance or active hedging, may be considered negative for ratings.
- Over-reliance on reinsurance can increase potential counterparty, dispute, and ongoing availability issues.

Reinsurance is used more extensively among non-life than life insurers. Fitch notes that higher rated insurers often use less reinsurance because their stronger financial standing and less-concentrated portfolio allows them to retain more of their own risk.

Given that reinsurance is still the most commonly used form of risk mitigation, especially among non-life insurers, Fitch's goal in assessing reinsurance programs is to gain comfort that:

- Sufficient amounts and types of reinsurance are being purchased to limit net loss exposures given the unique characteristics of the book.
- Reinsurance is available when needed.
- The cost of purchasing reinsurance does not excessively drive down the ceding company's profitability to inadequate levels and weaken its competitive posture.
- The financial strength of reinsurers is strong, limiting the risk of uncollectible balances due to insolvency of the reinsurer.
- Exposure to possible collection disputes with reinsurers is not excessive.

Figure I-18: Median Ceded Reinsurance Ratio Guidelines

	Insurer Financial Strength (IFS)			
	AAA	AA	A	BBB
Reinsurance Recoverables to Surplus/Equity (Non-Life, Financial Guaranty, Mortgage) (%)[a]	25	45	65	100
Net Notional Par Insured to Gross Notional Par Insured (Financial Guaranty) (%)	100	85	70	60
Single Risk Par to Capital (Financial Guaranty) (%)	5	10	20	100

[a]The 'AAA' standard does not explicitly apply to mortgage insurance. The mortgage insurance 'BB' median guideline is 135.

Data available to Fitch to assess each of the above areas can vary greatly from company to company. In some cases, Fitch receives detailed information on reinsurance programs, and in other cases information available to Fitch may be limited to amounts ceded or recovered from reinsurers and the level of receivables and ceded reserves. When information is limited, Fitch relies more heavily on the more basic ratios and metrics noted above, and also looks for signs of changes in reinsurance programs that could flag a change in risk. These include a shift in the amount of premiums ceded to reinsurers, changes in reinsurers' share of incurred losses or changes in the amount of reinsurance recoverables/receivables.

Insurance companies may also sponsor risk securitizations, such as catastrophe bonds. Compared with reinsurance, securitizations usually pose minimal to no counterparty credit risk, since they are typically fully collateralized to the limit of coverage with high-quality and liquid invested assets. However, it is not uncommon that the protection provided to the ceding company may not be complete due to basis risk, especially if the payout is linked to industry loss indexes or a defined parameter.

Insurers can also use reinsurance offensively and potentially add to risk. In such cases, Fitch examines why the reinsurance approach is being used, and stresses what would happen if the program was unwound or developed adversely. Examples of offensive uses of reinsurance include:

- Excessive cessions under quota-share treaties simply to earn ceding commissions.
- Finite risk reinsurance driven less by risk transfer and more by risk financing objectives (although finite risk transactions contain elements of both).
- Finite reinsurance can be used to improve current period earnings, smooth earnings, and effectively discount reserves thereby enhancing capital.

Fitch typically views the quality of such capital created through finite arrangements to be less than that obtained through the use of other forms of reinsurance containing higher levels of risk transfer.

For some life insurers, risk mitigation strategies other than reinsurance can play a significant role in shaping their risk profile, including:

- Use of derivative hedging to limit market risks on guarantees on variable annuity or unit-linked type products.
- In the U.S., use of various strategies to “cede” excess reserves of life insurance lines subject to Regulation XXX to provide for regulatory capital relief.
- Outside the U.S., securitization of the “embedded value” of certain product blocks, in order to enhance capital.

Fitch’s assessment of derivative hedging is similar to that done for reinsurance, but it also may consider basis risk, management strategy and any controls related to the hedging program, where such information is available. For some companies, review of historic performance of the hedged business is the primary part of Fitch’s assessment.

Fitch’s assessment of Regulation XXX, embedded value securitizations, and catastrophe bonds, or other alternate forms of financings, is done as part of its analysis of the total financing and commitments (TFC) ratio and the risk of its components (pages 20–21). Risks related to such activities can vary greatly, and Fitch notes this is a fairly fast evolving area of insurer financing activity.

Both life and non-life insurers can be exposed to catastrophic risks that are low-frequency, high-severity events. Common examples of such exposures include hurricanes or earthquakes in some parts of the world as well as the risk of a pandemic for some life insurers or reinsurers.

Catastrophe Risk

Fitch’s analysis of catastrophe risk for non-life (re)insurers involves both traditional risk analysis and in some regions, a review of the output of third-party catastrophe risk models, with the ultimate goal of evaluating various large loss scenarios relative to capital.

In all regions, the starting point for Fitch’s catastrophe risk analysis is to evaluate business mix, geographic concentration, premium growth rate, and past results in order to understand the company’s overall catastrophe risk management profile. This review considers the nature of catastrophe risk on both a marketwide basis within a jurisdiction, as well as a company’s specific share of market losses.

When provided, Fitch augments the above analysis by reviewing the results generated by non-life (re)insurers' internal catastrophe models and software. Fitch reviews model results at various confidence levels, including but not limited to 100-year, 250-year, 500-year, and 1,000-year probabilities, and beyond, when possible. Fitch believes a full evaluation of the extreme ends of the "tail" is useful, in part recognizing that actual catastrophe events seem to occur at frequencies greater than implied by many models.

Finally, Fitch has licensed AIR Worldwide Corporation's (AIR) CATRADER natural catastrophe modeling tool (primarily used for the U.S.) that models catastrophe risk and, where appropriate and feasible, produces a loss distribution curve for each insurer that fits its overall risk exposure.

Modeled catastrophe results are most informative on an annual aggregate basis (both gross and net of reinsurance) as opposed to a single-event occurrence basis, thus allowing Fitch to capture the compounding effects of multiple events in a single year, as well as the impact of diversifying exposures. Fitch's catastrophe risk analysis uses a tail value-at-risk (T-VaR) measure rather than a probable maximum loss (PML) approach, where available. T-VaR is the average of all potential losses from a specific threshold through the most extreme tail event and not just a single-point PML "return period" event.

When available, this more sophisticated, model-based catastrophe risk methodology can allow for more robust and better differentiated capital requirements among insurers. However, Fitch recognizes the potential shortfalls in any model-driven analysis and also takes care not to become overly reliant on the results of any one model without also applying judgment in interpretation of the model outputs.

N. Financial Ratio Definitions

Discussed below are key financial ratios used in the financial review of insurance companies, as per *Section I*. These definitions are general in nature and take a global perspective. Exact calculations can differ at the subsector or regional level. Because of subsector or regional differences, ratios in addition to those discussed below are also reviewed. When different reporting conventions are used by insurers within a peer group, analysts may make adjustments to standard ratio calculations to reconcile these differences, if useful. In these cases, standard ratios may still appear in standardized financial exhibits, and adjusted ratios may be discussed within rating commentary or footnotes.

Financial ratios are evaluated relative to peer performance, median guidelines by rating category, and expectations developed by Fitch specific to the rated entity. In many cases, there is information value in the change in ratio values over time as well as the absolute level. As such, Fitch typically looks at a time series made up of at least five years of historical data.

Capitalization and Leverage Ratios

Net Premiums Written to Surplus/Equity (Non-Life)

The ratio indicates a company's net operating leverage on current business written and measures the exposure of surplus/equity to pricing errors. Acceptable levels of net operating leverage vary by line of business, with longer tail lines and catastrophe-prone lines often requiring lower levels of net underwriting leverage due to their greater exposure to pricing errors. Since net premiums written are influenced by both volume and rate adequacy, interpretations must be made carefully since an adverse decline in rate adequacy could lead to apparent improvements in this ratio.

Net Leverage (Non-Life)

This measure indicates a company's net operating leverage on current business written, as well as liabilities from business written in current and previous years that have not yet run off. The ratio is calculated by dividing the sum of net premiums written and total insurance liabilities (gross technical provision or gross technical reserves), less any ceded reserves, by surplus/equity, and it measures the exposure of surplus/equity to both pricing and reserving errors. Acceptable levels for this ratio will generally be higher for long-tail writers and lower for short-tail writers, reflecting natural differences in the buildup of loss reserves.

Operating Leverage (Life)

Operating leverage (life) indicates the amount of liabilities (excluding separate account or unit-linked) supported by each unit of capital. This is not a risk-adjusted measure. Where ratios are high in either absolute terms or compared with peers offering similar products, this would be viewed negatively.

Net Par to Capital Leverage (Financial Guaranty)

Par to capital leverage is defined by net notional insured par (net par insured through traditional financial guaranty policies or sale of credit derivatives) to capital (owners' equity plus Fitch's estimate of the equity, if any, in the unearned premium reserve). The result is compared with risk-based leverage guidelines linked to the general characteristics of the insured portfolio.

Regulatory Capital Ratios (All Sectors)

Regulatory capital requirements are also reviewed in regions where they are available, including the National Association of Insurance Commissioners' (NAIC) risk-based capital ratio in the U.S., the minimum continuing capital and surplus requirements (MCCSR) in Canada, the Solvency II ratio in Europe and various solvency margins in other regions. While they are technically not regulators, capital standards published by government-sponsored enterprises Fannie Mae and Freddie Mac for U.S. mortgage insurers also fall into this category. In some regions, local regulatory capital rules can be limited in scope and result in greater emphasis on simple leverage measures discussed above.

Risk to Capital (Mortgage)

The risk-to-capital ratio is net risk in force divided by statutory capital. Risk in force is the unpaid principal of the mortgage loans insured multiplied by the percentage of the loan covered by insurance. Net risk in force is gross (direct plus assumed) risk in force less ceded risk in force and less risk in force for which loss reserves already have been established. This indicates a company's net operating leverage on current business written and measures the exposure of statutory surplus to downturns in mortgage performance.

Financial Leverage Ratio (All Sectors)

This measure considers the use of financial leverage within the total capital structure. Financial debt excludes operating debt, such as obligations issued by non-insurance finance subsidiaries and it includes solely insurance-related financial debt provisions. Special care is taken in assessing the quality of reported equity, taking into consideration the portion supported by intangible assets such as goodwill. This ratio is adjusted to account for any hybrid securities which possess both debt and equity characteristics. See pages 19–20 for additional details, as well as *Section IV*.

Total Financing and Commitment Ratio (TFC) (All Sectors)

TFC is a comprehensive measure of debt-related leverage, making use of a broad definition of debt to include essentially all financing activities, including traditional financial debt as well as both recourse and nonrecourse securitizations, letters of credit facilities with banks provided to third-party beneficiaries (largely used by alien or offshore reinsurers and match-funded debt), and debt guarantees and other financing-related commitments.

The ratio is designed to measure the debt, financing, and capital markets footprint of an organization, and its overall reliance on ongoing access to funding sources. The measure is intended to flag those companies that have an above average reliance on the capital markets for funding, which would trigger further analysis by Fitch to understand the relative risk of the company's various funding activities. Perceived high levels of risk would have a negative impact on ratings. See pages 20–21 for additional details.

Debt Service Capabilities and Financial Flexibility Ratios

Fixed-Charge Coverage Ratios (All Sectors)

Coverage ratios can be calculated on both an operating earnings and cash flow basis to judge economic resources available to pay interest expense, including the interest portion of rent expense, and preferred dividends. Where applicable, coverage ratios are also calculated to reflect dividend restrictions from regulated entities.

Financial Performance and Earnings Ratios

Combined Ratio (Non-Life and Mortgage)

The combined ratio measures overall underwriting profitability and is the sum of the loss ratio and expense ratio (including any policyholder dividends). A combined ratio less than 100% indicates an underwriting profit. Typically, lower combined ratios are required for companies writing short-tail lines generating modest investment income levels, or in which the book is exposed to periodic catastrophic or other large losses that need to be priced into income over longer periods of time.

The loss ratio measures the magnitude of incurred losses (including loss adjustment expenses) for the current calendar year relative to net premiums earned. Loss and loss adjustment expenses represent the largest expense item for most non-life (re)insurers.

Variances among insurers can be due to differences in the lines of business written, the level of rate adequacy, the tail of the book, pricing strategy with respect to expense/loss ratio mix, adverse loss items (i.e. catastrophes), and development of prior years' business, and changes in relative loss reserve strength.

The expense ratio measures the level of underwriting and acquisition expenses, such as commissions, salaries, and overhead, relative to net premiums. The denominator may use earned or written premiums depending on the local accounting convention and how expenses are incurred to better match costs to volume. In certain accounting regimes, expenses are incurred as paid, and in others they are incurred as premiums are earned.

Variances in expense ratio among insurers can be due to differences in distribution system costs (agency, direct, underwriting manager), the nature of the book and varying needs to underwrite each risk, pricing strategy with respect to expense/loss ratio mix, level of fixed versus variable costs, cost efficiencies and productivity, profit sharing and contingent commission arrangements, and ceding commission levels.

Operating Ratio (Non-Life)

The operating ratio measures operating profitability, which is the sum of underwriting and pretax investment income, excluding realized and unrealized capital gains or losses. The ratio is the combined ratio less the ratio of investment income to net earned premiums. Due to the combining of underwriting and investment earnings, the ratio is fairly comparable across both long-tail and short-tail lines of business. Several factors can make comparisons among companies difficult, including:

- Differences in operating leverage and the amount of investment earnings derived from invested assets supporting policyholders' surplus.
- Differences in investment strategies, particularly with respect to the taxable/tax-exempt mix and allocations to lower income/higher capital gain producing investments such as common stocks.
- Strong growth in long-tail lines for which reserves and invested asset balances have not yet accumulated to levels reflective of a mature book.

Pretax Return on Assets (Life)

This ratio measures a company's pretax, post-policyholder dividend operating profitability relative to mean assets. It is accordingly less sensitive to differences in operating leverage than a return on equity ratio. A company's age and mix of in-force business affects this ratio.

Return on Equity/Statutory Capital (Life and Mortgage)

Return on equity measures a company's after-tax net income relative to mean annual equity levels and indicates both overall profitability and the ability of a company's operations to grow equity organically. Variances among companies are explained by both differences in operating profitability and differences in net operating and/or financial leverage. For a profitable company, a less favorable (i.e. higher) leverage position will result in a more favorable result on this ratio.

When this ratio is calculated using U.S. statutory accounting, the numerator is statutory net income and the denominator is statutory surplus. For U.S. mortgage insurers, the denominator is statutory capital, which is surplus plus the statutory contingency reserve.

Investment and Asset Risk Ratios

Risky Assets to Surplus/Equity (All Sectors)

This measures an insurer's equity capital (or regulatory capital) exposure to defined risky assets, including below investment-grade bonds, unaffiliated common stock and other risky assets. The definition of "other risky assets" can vary among jurisdictions based on reporting conventions and local investing practices. Other risky assets, such as those with market valuation volatility and/or limited liquidity, can include affiliated investments, alternative investments, Schedule BA assets (in the U.S.) and/or real estate. This basic ratio is intended to measure the insurer's exposure to the most volatile credit and market risks. For mortgage insurers, investment-grade residential mortgage-backed securities are included in risky assets since they are expected to correlate with mortgage insurance losses.

Non-Investment-Grade Bonds to Surplus/Equity (All Sectors)

This measures the surplus/equity exposure to bonds below investment grade (rated lower than 'BBB–'), which carry above-average credit risks. In some jurisdictions, where the country ceiling is below the investment-grade level, Fitch measures the actual exposure to "stressed" investments as a substitute measure.

Unaffiliated Common Stocks to Surplus/Equity (Non-Life)

This ratio measures the surplus/equity exposure to common stock investments. Since common stocks are both subject to price volatility and are carried at market values, a high level of common stocks potentially adds an element of volatility to reported surplus/equity levels.

Asset/Liability and Liquidity Management Ratios

Liquid Assets to Loss and LAE Reserves (Non-Life)

This ratio measures the portion of a company's net policyholder loss and LAE reserves covered by cash and unaffiliated investment-grade bonds, stocks, and short-term invested asset balances. Higher values indicate better levels of liquidity.

Liquid Assets to Policyholder Liabilities (Life)

This compares the amount of invested assets that can be readily converted to cash with policyholder liabilities, which may be adjusted for nonsurrenderable liabilities. The ratio is evaluated both in absolute terms and period to period.

Liquid Assets to Liabilities (Financial Guaranty and Mortgage)

This ratio measures the portion of a company's net loss and loss adjustment expense reserves and other liabilities covered by cash and unaffiliated investment-grade bonds, stocks and short-term invested asset balances. Higher values indicate better levels of liquidity.

Reserve Adequacy Ratios

Net Reserve Leverage — Net Loss Reserves to Surplus/Equity

This ratio measures reserve exposures relative to capital. Higher leverage increases the effect on capital to any favorable/unfavorable reserve development experience.

Reserve Development to Surplus/Equity (Non-Life and Mortgage)

This ratio measures a company's one-year loss reserve development as a percentage of prior years' surplus/equity, and indicates the extent surplus/equity was either under or overstated due to reserving errors

Reserves to Earned Premium

This ratio considers the level of loss reserves relative to underwriting exposures, for which earned premiums are a key proxy. Changes in this ratio over time are more meaningful than the current ratio level. A sharp reduction in the ratio over time can indicate that reserves are not growing consistently with underwriting exposures, perhaps signaling a negative shift in reserve adequacy.

Calendar-Year Paid Losses/Calendar-Year Incurred Losses

This ratio assesses the flow of losses to measure changes in carried reserves over time. Barring unusual changes in premium revenues or unusual loss experience from one-time items such as catastrophes, the ratio gravitates near 1.0x for insurers typically.

Reinsurance, Risk Mitigation, and Catastrophe Risk

Reinsurance Recoverables to Surplus/Equity (Non-Life and Mortgage)

This measures a company's exposure to credit losses on ceded reinsurance recoverables. The ratio includes recoverables from all reinsurers. Generally, recoverables from affiliates, pools, and associations are considered to carry lower levels of risk. The ratio should also be interpreted in light of the credit quality of reinsurers, the stability of the relationship between insurer and reinsurer, historical collection patterns, and any security held in the form of letters of credit, trust accounts, or funds withheld. Acceptable levels for this ratio will generally be higher for long-tail writers and lower for short-tail writers, reflecting natural differences in the build-up of ceded loss reserves.

Net Notional Par Insured to Gross Notional Par Insured (Financial Guaranty)

Notional par insured includes the par value of bonds insured by traditional financial guarantees and the notional value of insurance issued through credit default swaps. Gross par includes the par value of bonds insured and credit default swaps written on a direct basis plus any notional par value assumed through reinsurance. Net par is gross par less par ceded through reinsurance.

Single Risk Par to Capital (Financial Guaranty)

The ratio measures the exposure of capital to potential loss from a single insured exposure. Fitch defines a single risk as an individual issuer for corporate securities, an individual seller for structured finance or an individual revenue stream for municipal finance (e.g. all state general obligations combined, each specific revenue bond, etc.). When such information is available to Fitch in calculating the single risk par-to-capital ratio, Fitch will combine single risk exposures that are common to the insured and investment portfolios.

II. Weighting of Key Credit Factors in Final Rating

Weighting of Key Credit Factors in Final Rating

Ratings are derived by Fitch rating committees via judgment based on a review of all relevant credit factors highlighted in all applicable criteria. Similarly, the weightings of the credit factors in determining the rating are determined on a judgmental basis by rating committees, and such judgments vary by issuer. For most international scale ratings, the weightings of various credit factors and criteria elements are discussed in Fitch research reports.

The weighting of credit factors is not defined in mathematical terms, such as 20% to capital and 15% to earnings. Instead, most credit factors are weighted by defining their relative importance to the rating. Other credit factors and criteria elements are weighted based on defining the degree by which they constrain or uplift the rating from that implied by the combination of all other credit factors. These weighting processes are described below.

Defining Relative Importance of Credit Factors

Fitch's rating committees will typically define the relative importance of the following key credit factors, as having "higher," "moderate" or "lower" influence on the final rating of an insurance organization. There is no standard weighting employed for any given credit factor.

- Industry profile and operating environment.
- Business profile.
- Capitalization and leverage.
- Debt service capabilities and financial flexibility.
- Financial performance and earnings.
- Investments and liquidity.
- Asset/liability and liquidity management.
- Reserve adequacy.
- Reinsurance, risk mitigation and catastrophe risk.

As discussed throughout *Section I*, for international ratings, an insurance organization's performance on each of the above credit factors are described by a rating committee in terms consistent with Fitch's credit rating scale. For example, based on use of the median ratios by rating category in *Section I*, the credit factor Capitalization and Leverage can be described by a rating committee as being of 'AAA' quality, 'AA' quality or 'A' quality, etc.

The default weighting for all credit factors is moderate.

Lower influence will be substituted for credit factors that do not provide a point of distinction for the insurance organization. This could be due to the credit factor not making up a material aspect of the insurer's fundamental credit profile. An example would be where Reinsurance, Risk Mitigation and Catastrophe Risk strategies are not important to the overall risk profile, due to the otherwise benign nature of product features or mix of business.

Lower influence would also be substituted for cases when a given credit factor does not, in Fitch's opinion, serve to balance against other more important strengths or weaknesses. For example, Fitch may have serious concerns that a weak Business Profile will erode future profitability and weaken capital. Thus, even if the insurer had very strong Investments and Liquidity, Fitch would likely assign a lower influence to Investments and Liquidity since liquidity does not counterbalance Fitch's more dominant concerns with Business Profile.

Higher influence is ascribed to credit factors that Fitch believes most define the fundamental credit profile. In the example above, Business Profile would be assigned a higher influence. Similarly, if in this same example capital adequacy was particularly strong or weak, Capitalization and Leverage would be assigned a higher influence. Strong capitalization could protect the integrity of the balance sheet should a weak franchise indeed result in future losses. Similarly, weak capital would allow the integrity of the balance sheet to be more easily breached. In contrast, a less distinctive Capitalization and Leverage position would likely be assigned a moderate influence in this same example.

Weighting of Other Factors and Criteria Elements

The rating committee will also typically define how the credit factors and other criteria elements listed below influenced the final rating:

- Corporate governance and management.
- Ownership.
- Sovereign and country-related constraints.
- Start-Up and runoff considerations.
- Non-insurance attributes.

For each of the above credit factors and criteria elements, the committee will determine if the credit factor or criteria element has an impact on the rating, which, depending on the factor, can be neutral; favorable; and/or unfavorable, and if other than neutral, by how many notches.

Per *Sections I* and *VII*, the credit factors and criteria elements listed here typically serve as constraints that can pull down a rating or as favorable attributes that can uplift a rating. For example, a low sovereign rating can act as a constraint that caps a rating. Alternatively, ownership by a high rated, supportive parent company can uplift a rating from that implied by the combination of all other credit factors. Strong corporate governance is typically neutral to a rating and has no positive or negative impact.

Such determinations as to the positive, negative or neutral influence of the noted credit factors and criteria elements give insight into their weighting on the final rating.

Weightings Change over Time

It should be noted that the weighting of the various credit factors above can change depending on the ratings review, as the company’s performance under each credit factor changes over time, and/or Fitch’s judgment with respect to performance changes.

For example, a credit factor such as Capitalization and Leverage could be designated as providing “higher” influence in an initial committee review, but then “moderate” influence in a subsequent committee review. This could occur, for example, if capital adequacy was particularly strong or weak in the initial committee review, but then normalized at the time of a subsequent review.

Similarly, a sovereign constraint could be removed if a sovereign rating was subsequently upgraded following an initial committee review. This would lower its implied weighting.

Fitch will only change its assigned rating after a rating committee has concluded that a change in its assessment of credit factors should lead to a rating change. Changes in the assessment of credit factors do not automatically lead to a rating change, but for a rating to be changed, there must have been a change in the assessment of credit factors.

III. Forward-Looking Elements

Forward-Looking Elements

Even though the fundamental analysis discussed in *Section I* includes review of significant amounts of historical information, Fitch strives to be forward-looking in its ratings analysis. While this is mainly achieved by analysts and committees taking a forward-looking perspective in their review of key credit factors, Fitch may also employ any of the following techniques:

- Forecasting.
- Sensitivity analysis.
- Stress testing.

The extent of use of any of these techniques may differ greatly from company to company, or rating action to rating action, based on the perceived usefulness of the technique at a given time.

The following is a discussion of each technique.

Forecasting

Forecasting involves defining specific predictions of future performance of the issuer. Forecasting can be detailed and formal, and involve development of a set of forecasted financial statements and related ratios, or it can be less detailed or formal and involve development of general expectations in a key ratio or metric based on analyst judgment of trends.

An example of the type of forecasting most typically used in insurance ratings analysis would be development of an expectation that a key capital or leverage ratio will not fall outside of a given range.

Forecasting-related analysis may also involve review and interpretation of management forecasts or guidance.

Currently, formal forecasting of a detailed set of financial statements or cash flows is not customarily done in support of insurance ratings, but may be for a given case if an analyst or committee deemed it useful.

Fitch's forecasts and expectations of likely future events, whether formal or less formally developed, can play a key role in setting ratings levels and performance expectations.

- Typically, base case expectations, which would be considered known and measurable, are included in ratings.
- In contrast, more extreme stress scenarios, especially those that are highly unlikely or immeasurable, are not captured in ratings. However, these may be discussed in research reports as part of sensitivity analysis, as discussed below.
- At times, stress-testing results (discussed below) or other downside scenarios act as a form of forecasting. If deemed appropriate, these can be factored into ratings.

Sensitivity Analysis

Sensitivity analysis involves identification of how changes in key assumptions embedded in a rating related to key aspects of the insurer's profile could potentially result in a future ratings change. Generally, the focus is on aspects of the profile that may evolve or change over the ratings horizon, which is typically viewed as up to five years.

Priority is placed on identification of risk elements leading to assumption changes that could result in a sudden multi-notch downgrade risk or upgrade potential. For example, if a company is within reasonable proximity to triggering a covenant that could create a material liquidity call, this could be identified as an area of sensitivity for the rating.

Sensitivity analysis also considers the potential drivers of more modest one-notch or two-notch rating changes over time.

Fitch's goal is to identify sensitivities that have particular importance and relevance for the noted rating. Accordingly, extreme "macro" events such as the impact of a war are typically not identified as part of the sensitivity analysis.

However, large theoretical macro events such as losses from property catastrophes could be part of the sensitivity analysis of catastrophe reinsurers or property-oriented non-life insurers, since managing such risks are core to their business profiles.

The results of Fitch's sensitivity analysis are typically discussed in published reports via commentary.

Stress Testing

In the context of Fitch's insurance industry ratings, Fitch may conduct specific stress tests designed to identify the near- to intermediate-term vulnerability of an insurer to specific economic circumstances or events. Examples of stress tests would include investment losses from declining equity markets, the impact of sovereign strain on issuers in that country, or potential exposure to reserve deficiencies as the insurance cycle troughs. Stress tests are also known as downside scenarios.

While sensitivity analysis is typically done on a regular ongoing basis, stress testing is done on more of an ad hoc or "as needed" basis. For example, if stock markets are expected to experience unusual volatility for a given period of time, Fitch may define and conduct a stress test that considers a market decline of a given percentage of an index value.

Accordingly, stress testing tends to take place at the beginning of, and during, a period of perceived economic variability.

Stress testing is often accomplished in the insurance industry by conducting pro forma analysis on capital ratios, liquidity, and/or earnings measurements based on a defined stress event or events.

In some situations, especially when Fitch is concerned that the adverse scenario defined by the stress test may occur, Fitch may take rating actions based on pro forma stress results. In other situations, stress testing is done for informational purposes and would then be a form of sensitivity analysis.

Through the Cycle

In discussing the forward-looking elements of Fitch's ratings analysis, it is important to put this in context of an overarching aspiration that ratings generally should not change due to normal or minor cyclical variations. This is commonly referred to as rating "through the cycle."

Simply put, Fitch's aspiration is that via the various techniques discussed above, Fitch is able to form reasonable forward-looking expectations for an issuer's future performance that at any point in time would be reasonably reflected in the current rating.

It would only then be performance outside of these expectations that would result in a ratings change.

For example, Fitch may conclude that in a given market segment, a combined ratio for a non-life insurer may normally fluctuate between 92% and 105% from peak to trough in an underwriting cycle. Thus, if the combined ratio deteriorated in a year from 100% to 104% as the cycle worsened, this would not be expected to result in a rating change. However, if the combined ratio jumped to 115%, a downgrade may be considered.

For additional information on forwarding-looking aspects of Fitch ratings, see the reports *Defining Rating Scenarios — Base and Downside Scenarios* and *Addressing Extreme Events — Ratings Reactive to Unforeseeable Events* at www.fitchratings.com.

IV. Hybrid Securities: Treatment in Ratios/Equity Credit

Hybrids: Treatment in Ratios/Equity Credit

In this section, Fitch discusses its general principles governing its treatment of hybrid securities within the various capital and leverage ratios discussed in the preceding *Section I-G*. Occasionally, Fitch may publish special reports that highlight how the application of these principles affects the treatment of specific hybrid securities, especially newer hybrids. Rating committees retain flexibility in application of these principles to specific situations not contemplated in this report.

Core Principles

Fitch believes hybrids replicate certain features of common equity only to the extent that they contribute to the ongoing viability of an organization. For insurance organizations, failure is typically brought about via an inability of an insurer to maintain adequate regulatory capital levels during periods of stress, in which losses erode capital. Hybrids aid viability to the extent they absorb or help offset losses.

Fitch employs two approaches in its treatment of hybrids:

- Hybrids are first evaluated based on Fitch's own view of how the features of the hybrid support viability.
- In the context of capital adequacy ratios (CAR, pages 17–18) only, Fitch also reviews the regulatory treatment afforded the hybrid. Fitch believes regulatory treatment has a significant impact on viability under stress, since favorable treatment of a hybrid can effectively make it loss absorbing from the perspective of the regulatory capital adequacy ratios and/or solvency margins. Generally, Fitch allows regulatory treatment to override the agency's own treatment in Fitch's CARs when the two differ.

Fitch does not apply this regulatory override in its treatment of hybrids in financial leverage ratios (FLR, pages 19–20) or the total financing and commitments (TFC, pages 20–21) ratio. These ratios are generally not subject to regulatory oversight (or least not to the degree or visibility of CARs), thus regulatory treatment of hybrids for these ratios has minimal impact on an organization's perceived or actual viability.

The full value of hybrids is always included as being debt-like in the TFC ratio given its previously stated definition to be an "all encompassing" measurement of an insurance organization's capital markets and financing-related footprint.

Generally, Fitch believes complexity can make it difficult to judge how a hybrid may perform. Such features that Fitch views as adding excessive complexity to a hybrid include look-back provisions, parity security language, coupon step-ups, questionable deferral features, covenants, and cross-default provisions, among others including cases of intergroup hybrid issuance. In general, if such features are added to a hybrid and create any material uncertainties for Fitch as to how a hybrid may perform during a period of stress, those features reduce the amount of equity credit otherwise implied.

Fitch's Own View on Hybrids

Fitch employs three categories in its adjustments to ratios for hybrids: 100%, 50% and 0%.

For purposes of CARs such as Prism, these percentages indicate the level of equity credit afforded the hybrid (i.e. the proportion of the hybrid that is added to available capital or AC).

In FLRs, the percentages show the portion of the hybrid that is added to debt in the numerator of the ratio. For example, in the debt-to-capital ratio, the percentage tells the portion of the hybrid that is included in the numerator of the ratio (the entire value of the hybrid is included in the denominator).

Perpetual Preferred Securities

Perpetual preferred securities (or equivalent forms of deeply subordinated debt that have all of the features of perpetual preferred, including permanence and having deferrable coupons/interest that is noncumulative) may be treated as 100% equity in CARs, and may not be included as debt in FLRs.

As an exception, to the extent such securities are cumulative, they may be treated as 50% debt in FLRs, while still 100% as equity in the CAR. Fitch views the security's deep subordination and perpetual nature as supportive to balance sheet loss absorption, and Fitch reflects this in the CAR. However, the ultimate need to service the cumulative coupon/interest payments adds a debt-like element that Fitch has decided to reflect in the FLR.

Questionable deferral features may also negate favorable treatment in the CAR and FLR.

Dated Deferrable Debt Hybrid Securities

These encompass various deferrable subordinated debt and junior subordinated debt securities and trust preferred securities. Like debt, such securities have a stated maturity (though often long dated) but they also have dividend or interest deferral features at the option of the issuer and/or include a defined trigger that typically run to a defined maximum of three to five years.

For insurance organizations, Fitch views such securities as debt-like and providing only minimal cash flow flexibility even if deferral is made. They also carry so-called "signaling risks," meaning management's (or a defined trigger's) initiation of a deferral is seen as a signal to the market that it believes its firm is under stress. Signaling risks provide strong incentives for management to avoid deferral, whether optional or mandatory per a trigger.

Accordingly, such securities generally receive no equity credit in a CAR and 100% debt treatment in a FLR.

Mandatory Convertible Securities

Mandatory convertible securities come in two forms:

- "True" convertibles in which a single security is issued that converts to equity.
- "Synthetic" convertibles in which an underlying debt security is combined with a forward contract to sell equity in the future.

The latter typically employs a timing difference between the maturity of the debt instrument and the equity issuance, with the debt maturity extending beyond the equity issuance.

True mandatory convertible securities that are subordinated and deferrable (or zero coupon), not excessively dilutive on conversion (per exchange price/ratio), and will convert in less than three years, may be treated as 100% equity in CARs and 0% debt in FLRs. When similar securities have longer conversion periods of three to five years, they receive 50% equity credit and 50% debt treatment. If the security is senior with a conversion period of less than one year, these securities also receive 50% treatment in both ratios. Securities with less conservative features than those described may not receive equity credit in the CAR and may be 100% debt in the FLR.

Synthetic units are treated as two separate securities in ratio analysis. Thus, the underlying debt security is treated as 100% debt in FLRs from the time of issuance until it is repaid/refinanced. It receives 0% equity credit in the CAR. At the time it is issued, the equity resulting from exercise of the forward contract is treated as 100% equity in the CAR, and added to non-debt capital in the FLR (as applicable, for example, in the denominator of a debt-to-capital ratio). Prior to issuance of the equity, the forward contract is excluded from both the CAR and FLR.

Optional Convertible Securities

These do not receive any equity credit in the CAR and are treated as 100% debt in the FLR.

Contingent Convertible Securities

These reflect a new form of hybrid that permanently write down or convert to common equity as certain defined triggers are breached as stress sets in. They are often referred to as “CoCos” in the capital markets. A number of such instruments have been issued, mainly by banks, but also by some insurers.

Where triggers are high, meaning they would be written down or converted at early signs of stress, Fitch may treat as 50% equity in CARs and 50% debt in FLRs. When the trigger is less likely to be enacted until stress is severe, equity credit in the CAR may be 0%, and 100% of the hybrid may be added to debt in the FLR.

For any of the convertible securities, exceptions may exist, when ignoring the conversion feature, if the underlying security would qualify for favorable hybrid treatment.

A summary of Fitch’s own hybrid treatment can be found in the table below. As noted previously on page 50, FLR treatment is often 100% debt when hybrids are complex.

Figure IV-1: Fitch’s Own Hybrid Treatment in the Insurance Industry

Hybrid Type	CAR Treatment	FLR Treatment
Perpetual Preferred		
Noncumulative	100% Equity	0% Debt
Cumulative	100% Equity	50% Debt
Dated Deferrable Debt Securities	0% Equity	100% Debt
Mandatory Convertible (True)[a]		
Sub Under Three Years	100% Equity	0% Debt
Sub Three to Five Years	50% Equity	50% Debt
Senior Under One Year	50% Equity	50% Debt
Mandatory Convertible (Synthetic)		
Underlying Debt[a]	0% Equity	100% Debt
Forward Contract	0% Equity at Issuance	0% Debt
	100% Equity Upon Funding	0% Debt
Optional Convertible[a]	0% Equity	100% Debt
Contingent Convertible[a]		
High Trigger	50% Equity	50% Debt
Low Trigger	0% Equity	100% Debt

[a]As an exception, favorable treatment will be used if underlying security would otherwise qualify.
CAR – Capital adequacy ratio. FLR – Financial leverage ratio.
Note: This is an illustrative summary only based on typical or anticipated hybrid features. See the criteria for further details. In all cases, favorable treatment can be negated due to complexity.
Source: Fitch Ratings.

Regulatory Override in CAR

As noted, when a rigorous regulatory regime is in place that Fitch views as supporting perceived and actual viability of an insurance organization under stress, Fitch may allow regulatory treatment of hybrids to override its own treatment in Fitch's CARs, such as Prism. This regulatory override applies both when a regulator has a more favorable treatment than Fitch's own view, and when a regulator has a less favorable treatment. The regulatory override does not apply to FLRs or the TFC.

The following defines the nature of the override in countries that have adopted Solvency II, Switzerland, the U.S., Australia, Canada, Japan and Singapore. The application of the regulatory override in other countries may be discussed in issuer-specific research reports and ratings commentary when hybrid treatment is material to the rating outcome of such issuers.

Fitch notes that based on differing local regulatory treatment, application of its regulatory override may result in similar hybrids receiving different levels of equity credit across issuers in different countries. Fitch views this as an acceptable outcome on the view that different regulatory treatment, in and of itself, can affect viability under stress.

Solvency 2 Countries

For countries that have adopted Solvency II, Fitch defines its override to include Tier 1, Tier 2 and Tier 3 capital instruments, but only to the extent that they get credit for regulatory solvency purposes. If part or all of any such instrument is disallowed for regulatory purposes (because of, for example, the application of the relevant regulatory limits), then Fitch will mirror that reduction in credit in its treatment.

Fitch generally does not employ grandfathering in its methodologies. However, to the extent that regulators have explicitly grandfathered pre-Solvency II hybrids (that would not otherwise qualify), Fitch applies its regulatory override for these securities as well.

Switzerland

A similar override to that discussed above may be used in Switzerland, given the similarities of its capital methodology and that under Solvency II. Fitch may include both upper and lower supplementary capital as defined by the Swiss regulator as AC in its CAR.

United States

Fitch may include any hybrid that is approved by a regulator to be included as "policyholders' surplus" in an insurance company's statutory financial statements as AC in its CAR. The most common example of this would be a surplus note, which generally would not qualify for AC inclusion in Fitch's treatment, but it is included as statutory policyholders' surplus.

Australia

Fitch may include any hybrid that falls within Tier 1 and Tier 2 resource definitions as established by the Australian Prudential Regulation Authority (APRA), in the context of establishing capital adequacy requirements under the risk-based capital framework, as AC in its CAR. Moreover, to the extent that APRA allows older hybrids to be grandfathered and treated as Tier 1 or Tier 2 capital, Fitch may employ its regulatory override for these securities.

Canada

Fitch may include any hybrid that falls within Tier 1 definitions as established by the Office of the Superintendent of Financial Institutions (OSFI), in the context of the Minimum Continuing Capital and Surplus Requirements (MCCSR) as AC in its CAR.

China

Fitch may include any hybrid that falls within Core Tier 1 and Tier 2 resource definitions as established by the China Insurance Regulatory Commission (CIRC) in the context of establishing capital adequacy requirements under the China Risk-Orientated Solvency System (C-ROSS) as AC in its CAR.

Japan

Fitch may include any hybrid that is approved by the Financial Services Agency (FSA) to be included in regulatory capital as AC in its CAR. The most common example of this would be “kikin” issued by mutual insurance companies.

Singapore

Fitch may include any hybrid that falls within Tier 1 resource definitions as established by the Monetary Authority of Singapore (MAS), in the context of establishing capital adequacy requirements under the risk-based capital framework as AC in its CAR.

Limits on Amount of Hybrids in Capital Structure

For insurance organizations, Fitch does not employ an absolute cap on the maximum amount of hybrids that reside in a capital structure. However, when hybrids begin to exceed 20% of total capitalization (i.e. the ratio of hybrids divided by the sum of hybrids plus debt plus equity), rating committees may consider if the debt-like features of the hybrid may be placing stress on the organization’s cash flows or financial flexibility. If the committee has concerns, favorable hybrid treatment may be negated or reduced in such cases. This applies to both CARs and FLRs.

V. Group Rating Methodology

A. Key Concepts

B. Willingness to Provide Support

C. Ability to Provide Support

D. Referral of Financial Strength

E. Changes in Strategic Category

F. Referral of Weakness

G. Rating Above the Group Assessment

H. Support in Emerging Markets

I. Summary of Steps in Applying Group Rating Criteria

A. Group Rating Methodology — Key Concepts

Group rating methodology is applied only among operating companies within a family of insurance companies. Holding company (see *Section VI-C*) and non-insurance company ratings are addressed separately.

Fitch may ultimately take one of three approaches to determine the actual IFS rating and/or IDR of a given insurance company that is a member of a group:

Stand-Alone Approach: Group member is rated strictly on the basis of its own financial profile, with no impact on its rating from its group affiliations. In this case, the stand-alone assessment becomes the IFS/IDR rating.

Partial Attribution Approach: Group member is rated reflecting some attribution of the strengths or weaknesses of other group members. In this case, the IFS/IDR ratings typically fall between the group assessment and stand-alone assessment.

Group Approach: Group member's IFS/IDR ratings are set at the same level as the group assessment.

Fitch's decision to use other than a stand-alone approach when rating members of a group is a function of two broad concepts, each with two main components:

- Willingness to provide support:
    - Strategic importance of affiliates.
    - Support agreements between group members.
- Ability to provide support:
    - Financial strength of the organization and how it may limit the ability to provide support when under pressure.
    - External barriers that restrict movement of capital/resources between affiliates.

Ultimately, when rating the insurance companies in a group, Fitch typically establishes an opinion based on the consolidated profile of all insurance affiliates, and in some but not all cases, forms an opinion on the stand-alone financial strength of various group members. Fitch's decision to develop a stand-alone assessment, or not, for a given company may be based on whether Fitch believes one is useful in the context of application of this criteria. See section *Referral of Financial Strength* on page 64 or additional details.

These group and stand-alone assessments are developed by Fitch only for use in application of these criteria, and may or may not be published.

For simplicity, all examples discussed in the remainder of this section will reference only the IFS rating (though they would apply to the IDR as well).

B. Willingness to Provide Support

Willingness to support group members is a function of two factors:

- Strategic importance of affiliates.
- Support agreements between group members.

In general, the more strategically important group members are to each other, the more likely Fitch is to use a group approach or partial attribution approach. The same holds true if formal support agreements are in place.

Fitch notes that its evaluation of support willingness is highly judgmental and among the most challenging decisions for a third-party observer. While an insurance affiliate may meet all of the attributes to be considered a “Core” subsidiary (as defined below), the market reality is that any affiliate or business line can be divested at any time. As a result, Fitch may reconsider the strategic category of an affiliate over time, or as events warrant.

Strategic Importance

For internal evaluation purposes, Fitch assigns one of four broad categories of strategic importance to each insurance affiliate:

- Core.
- Very Important.
- Important.
- Limited Importance.

When deemed useful to aid transparency in describing its rating rationale, Fitch may publish these categorizations in company research reports. Fitch notes that its evaluations of strategic importance may differ, at times materially, from management indications of strategic importance. Fitch makes such evaluations only in the context for use in these rating criteria, whereas management indications serve various other purposes.

Core

Core includes insurers that are a key and integral part of the group’s business. Core affiliates may demonstrate:

- A history of success in supporting group objectives, and the outlook for future success is at least on par with that of other Core companies.
- There are typically synergies or complements between Core companies.
- Core insurers are usually material in size relative to the whole of the organization and/or in absolute terms, but in some cases core insurers are smaller companies.

Often, the disposal of a Core insurer will materially alter the operating profile of the organization, and will cause one to question if the organization’s franchise as a whole was being significantly changed. The sale or placement into run off of a Core affiliate will often cause Fitch to re-evaluate its group assessment.

It should be noted that some organizations may have two or more distinct Core businesses. A common example of this would be a U.S. insurance organization composed of significant life and non-life operations with minimal integration. Fitch would typically develop a unique group assessment for each of the Core business groups.

In some cases, Fitch may designate a small member of a group as Core if the insurer is an extension of a core business, is highly integrated and effectively lacks a stand-alone identity. Examples include smaller insurance subsidiaries that: act as an operational hub for an important region in the parent's strategy; are set up solely to obtain a license so that a group can operate in a jurisdiction in line with the parent's strategy, such as New York subsidiaries in the U.S.; are included in inter-company reinsurance pooling arrangements, commonly seen in North America; and are foreign subsidiaries whose primary strategic purpose is to provide coverage to local affiliates of companies that are insureds of the parent insurer.

Very Important

Very Important consists of insurers with:

- A long-term outlook for future success that have a synergistic relationship to the Core members, but fall short by a small margin, possibly due to size or newness.
- A Very Important entity could reach Core status with modest growth or some seasoning.
- The disposal of a Very Important insurer may cause one to question the strategic direction of the organization.

The sale or placement into run off of a Very Important affiliate may cause Fitch to re-evaluate its group assessment.

Important

The Important category includes:

- Insurers with a long-term outlook for future success and that have some synergistic relationship to the Core members, but do not fit being Core or Very Important.
- Important insurers typically have a lower level of synergies with the Core businesses, lackluster financial performance, small relative size, or newness to the organization.
- While a Very Important insurer falls short of Core status by a small margin, an Important insurer falls short by a significant margin.
- An Important business could be disposed of with less concern as to the effect on the overall franchise.
- Important members are often managed with the intent to grow and eventually become a Core operation.

The sale or placement into run off of an Important affiliate may or may not cause Fitch to re-evaluate its group assessment.

Limited Importance

All other members of a group may be designated by Fitch as having Limited Importance from a strategic perspective.

- While potentially strong performers, they typically have no synergistic relationship to the group other than (possibly) providing diversification to the earnings stream.
- The disposition/run off of a Limited Importance insurer will not alter the operating profile of the organization nor cause one to question the overall franchise.

In addition, an operation that is likely to be sold is typically considered of Limited Importance.

Evaluating Strategic Importance — Common Questions

In coming to its conclusions, the types of questions Fitch will consider include the following. Fitch does not necessarily review all of these questions in all cases, but will instead focus on those that it believes are most important to a given situation.

Materiality

- Does the insurer materially affect the group's profile?
- How long has the insurer been part of the group?
- Is the insurer material in size in relative or absolute terms?
- Would the disposal of the insurer lessen the franchise of the group or impair the realization of the group's strategy?
- Are there sound operating or regulatory reasons for the group to operate through a separate insurer?
- If it is a smaller company, is it an extension of a core business, highly integrated and/or effectively lacking a stand-alone identity?

Performance

- Does the insurer have a track record of supporting group objectives (such as profitability, growth, diversity)?
- What are the insurer's prospects compared with other group affiliates?

Branding

Does the insurer carry the group's name or that of a key product or trademark?

Management and Resources

- Does the insurer share board members or senior management with the parent company or other group members?
- Does the insurer share office space, back-office functions, accounting, information technology (IT), or other systems with other group members?
- Can the operations of the insurer be easily severed from the organization?
- Is the insurer wholly owned or is there a significant minority interest that could restrict the ability of the majority owner to support?

Location

- Is the insurer incorporated in the same regulatory jurisdiction as other group members?

Past Support

- Does the group have a track record of giving support, capital, and/or operational, to the insurer? To other affiliates?
- Conversely, has there been a lack of such support from the group during periods of difficulty for the insurer? For other affiliates?

Support Agreement Types

Support agreements can have a material impact on Fitch's evaluation of group support willingness, especially when group members are less than Core from a strategic perspective. Fitch may evaluate any support agreements in place among the group members to judge if they are formal or informal in the context of this criteria.

- Formal support agreements may, in many cases, result in an uplift in a non-Core group member's IFS rating.
- Informal support agreements, while informational, typically have no impact on a rating conclusion.

The following are the primary types of support agreements Fitch has observed.

Formal Support Agreements

Liability Guarantee: A formal support agreement that assures the payment in full of a group member's liabilities, as guaranteed by another group member or members. Liability guarantees are typically irrevocable and cannot be terminated for liabilities incurred during the guarantee period, even if the insurer is divested (though the guarantee can be terminated for new liabilities at any time). This is the strongest form of support agreement due to its irrevocable nature.

"Fortune-Sharing" Reinsurance: Represents the use of quota-share or certain broad-based stop-loss agreements among affiliates that are clearly structured to allow the financial fortunes of the participating affiliates to rise and fall together. In order for reinsurance to be viewed as a formal type of support for a non-Core affiliate, it must be written in the context of an affiliated relationship.

Note, if the form of reinsurance provided can be easily provided on similar terms by an unrelated third party, and/or does not allow for fortune sharing (examples of fortune sharing would be a quota-share agreement of around 80% or more of an entire book of business, an aggregate stop-loss agreement that limits the loss ratio to a maximum of about 70%, or an aggregate catastrophe cover that extends both significantly lower and higher than a typical 100–500-year probable maximum loss range), the reinsurance may not be viewed as a form of support for purposes of these criteria. (Note: as discussed earlier, insurers in reinsurance arrangements that constitute intercompany pooling arrangements are typically treated as Core).

Capital Support Agreement: A formal support agreement signed by the board or an empowered member of executive management to maintain capital of a group member above a minimum threshold (usually defined in either absolute terms or as a percentage of regulatory required capital). In some cases, there are absolute caps on the amount of capital that will be added; in others, the commitment is unlimited. Certain capital support agreements are legally binding while in force, but they are usually revocable and can be withdrawn if the insurer is divested.

Informal Support Agreements

Management Comfort Letter: A written statement by management as to which businesses it considers Core, Very Important, or Important. Management "comfort letters" add some value by defining management's intent and by potentially providing a stronger moral obligation on the part of management to back up its statements. However, comfort letters are not enforceable. Despite being written, comfort letters are viewed as an informal form of support.

Strategic Statement: A statement by management as to which businesses it considers Core, Very Important, or Important that may include verbal commitments as to minimum capital targets for individual insurance companies. Strategic statements are not enforceable and can change if circumstances change. For instance, a new management team typically conducts a strategic review of all operations and may determine an operation that was considered key by previous management is now a candidate for disposition.

C. Ability to Provide Support

Ability to support group members is a function of two factors:

- Financial strength of the organization and how it may limit the ability to provide support when under pressure.
- External barriers that restrict movement of capital/resources between affiliates.

Level of Financial Strength

The ability of individual insurance companies to obtain regulatory approval for movement of capital and other assets between affiliated companies is seldom an issue when financial performance is good and credit fundamentals are strong. Fitch often defines this threshold as the support provider having an IFS rating of ‘A–’ or higher.

However, when credit fundamentals are weak or declining, insurance regulators are more cautious in granting their approval. In addition, other constituents such as rating agencies, creditors, distributors, and customers may take a negative view of capital movements that diverge from their expectations. Therefore, management will be under much greater scrutiny and this may limit the ability to freely move capital and resources.

Thus, use of a group or partial attribution approach for lower rated organizations potentially includes constraints on ratings uplift. Exceptions exist when formal support agreements are in place. See section, *Referral of Financial Strength*, for additional details on application of such constraints for lower rated groups.

In practice, in some cases Fitch may vary the appropriate point of delineation to be higher or lower than ‘A–’ to reflect unique circumstances. For example, in highly ratings-sensitive businesses, a higher rating standard may be used. Alternatively, a lower standard may be used in developing markets if ratings generally are constrained below ‘A–’ due to a sovereign/country ceiling or if regulatory restrictions on capital flows are low and the members of the group otherwise appear able to provide support to each other.

External Barriers

Even when financial strength is high, Fitch is reluctant to take a group approach or even a partial attribution approach if it has concerns that substantial external barriers exist, as external barriers could restrict group members from supporting each other, even if they are willing.

- These barriers include regulatory or legal restrictions, potential government intervention, adverse tax consequences, and debt covenants.
- In many jurisdictions, each insurance company is regulated at the individual company level.

In almost all jurisdictions, regulatory capital ratios, and/or solvency margin requirements place some restriction on upstream dividend payments and other capital movements. Further, in some jurisdictions, insurers are free to move capital and/or invest capital within certain described formulas. However, insurers may need specific approval for any extraordinary capital movements that fall outside of the formula constraints. Regulators often make extraordinary payment approval decisions based on an analysis at the individual company level. In addition, as well as in jurisdictions that do not employ formula constraints, regulators may disallow ordinary dividend payments or other capital movements based on individual company financial trends.

The degree of regulation, and thus the degree of external barriers to support, can vary greatly based on jurisdiction.

With the growth of large international insurance players, increased cooperation among governments and the emergence of global capital markets, Fitch notes that a trend emerged throughout the 2000s, in which many of the external barriers to capital movement across countries was diminishing. This was particularly true in the developed European economies. However, Fitch notes that the financial crisis of 2008–2009 has apparently caused some local regulators to become seemingly more reluctant to give up authority to a supranational regulator, or other local regulators. In addition, domestic political considerations may constrain management's ability to support a foreign subsidiary. This may slow some of the trends of reducing barriers to support among members of global groups.

In emerging market economies, external barriers imposed by governments can become quite pronounced during times of stress. Several historical examples of sovereign stress and government interference provide insight into the ability of foreign affiliates to support local subsidiaries.

The Argentinean crisis in 2001 resulted in a massive default of sovereign securities held by insurance companies, while the asymmetrical devaluation of dollar-based assets and liabilities created a significant mismatch between the value of the reserves and the investment portfolio. During this period, foreign shareholders could not inject the required funds to keep payment of claims current due to a deposit freeze that affected the local banking system. Subsequent to these events, several international insurance groups exited Argentina.

A less drastic case can be seen in Venezuela in 2005, where the government intervened in the financial sector specifically and the private sector generally, through an array of price controls and legal requirements.

These adverse actions could prevent international insurance groups from providing support to local subsidiaries.

D. Referral of Financial Strength

Fitch employs the general guidelines below in coming to its decision to determine strength among entities in a group for rating purposes. The typical order of the up to seven-step process in developing a final rating, by applying the overall methodology in the report, is as follows:

1. Development of group assessment.
2. Assessment of strategic category for each group member (willingness).
3. Identification and assessment of any formal support agreements (willingness).
4. Consider any barriers to support based on financial strength of group (ability).
5. Review if there are any material external barriers to support (ability).
6. Development of stand-alone assessments for group members, if deemed useful.
7. Apply appropriate judgment related to all of the above factors, together with benchmarks detailed below, to set final ratings.

As a final step, if applicable, Fitch may adjust company IFS ratings for any differences in recovery assumptions per *Sections VI* and *IX*.

The following is additional commentary on Fitch's process. A tabular presentation of these same concepts can be found on pages 73–74.

Stand-Alone Assessments

Per step 6 above, a stand-alone assessment may be developed per these criteria when deemed useful by Fitch. A stand-alone assessment for a given group member may be deemed useful if the strategic categorization is less than Core per step 2. A stand-alone assessment may also be deemed useful if concerns exist related to the ability of the group to provide support per steps 4 or 5, unless the risk is structurally mitigated via formal support per step 3. In most other cases, stand-alone assessments may not be deemed useful, and thus typically not developed. This latter situation tends to be true in a vast majority of cases for rated insurers.

At times, due to information constraints, Fitch may only be able to approximate the stand-alone assessment, for example, by identifying the rating category as opposed to a notch-specific opinion. If this is deemed to be sufficient by Fitch in the context of the broader methodology, Fitch may proceed in assessing the group member. In select cases, Fitch may not be able to develop a stand-alone assessment at either the notch-specific or category level (for example, due to informational constraints or a group member not possessing a true independent financial profile). If a stand-alone assessment is deemed both useful and material to the outcome, but one cannot be developed, Fitch may not rate that company. Fitch would expect this to be quite rare.

Benchmarking Guidelines

The following are additional comments on application of Fitch's criteria for the four strategic categories. One overriding consideration is that if external barriers per step 5 indicate capital is not fungible in a strict sense, a stand-alone approach (i.e. actual rating equal to the stand-alone assessment) may be used unless a formal support agreement per step 3 mitigates the risk. In the discussion below, references to constraints due to external barriers reflects the case in which Fitch has concluded potential external barriers exist that may affect fungibility, but lack of fungibility is by no means certain. References to use judgment in selecting the appropriate number of notches within the available ranges relates to how strong an insurer fits within its strategic category, based on the parameters outlined earlier in this report.

Core

Primary Nature of Referral: Fitch may assign the group assessment to the IFS ratings of Core members of a group, as identified in step 2.

Figure V-1: Core: IFS Rating Caps

(Linked to Financial Strength or External Barriers)

Group Assessment Superior to Stand-Alone Assessment	Cap Based On Notching Up from Stand-Alone Assessment
0–2	No Cap
3–5 Notches	3 Above
6+ Notches	4 Above

Additional Considerations: If concerns related to the ability to support are identified in steps 4 or 5, Fitch may potentially limit full application of the group assessment. The decision may consider the number of notches between the stand-alone assessment and the group assessment per the table to the above right.

Very Important

Primary Nature of Referral: Very Important insurers identified in step 2 can be rated at the level of the group assessment, or between the group assessment and stand-alone assessment, based on judgment. Certain maximum rating benchmarks are used, and limitation on the ability of the group to provide support can further affect the degree of ratings uplift.

Figure V-2: Very Important: Initial IFS

Group Assessment Superior to Stand-Alone Assessment[a]	Highest IFS Rating Relative to Group Assessment
0–2	Group Rating
3–5 Notches	1 Below
6+ Notches	3 Below

[a]If a formal support agreement exists per step 3, the highest IFS rating is the group rating, regardless of the distance between the group assessment and stand-alone assessment. IFS – Insurer Financial Strength.

Additional Considerations: Fitch may initially benchmark the IFS rating of a Very Important insurer first by notching down from the group assessment. The degree of notching down is based on judgment, but is constrained by the distance between the group assessment and the stand-alone assessment (unless a formal support agreement exists per step 3), with the typical highest rating level relative to the group assessment as follows in the table to the right.

Figure V-3: Very Important: IFS Rating Caps

(Linked to Financial Strength or External Barriers)

Group Assessment Superior to Stand-Alone Assessment[a]	Cap Based on Notching Up from Stand-Alone Assessment
0–2	No Cap
3–5 Notches	2 Above
6+ Notches	3 Above

[a]If a formal support agreement exists per step 3, the highest IFS rating is the group rating, regardless of the distance between the group assessment and stand-alone assessment. IFS – Insurer Financial Strength.

Additionally, as is done with Core insurers, if the ability to support is potentially constrained per steps 4 or 5, Fitch may also cap the IFS rating from that implied from the initial benchmark above, as follows in the lower table to the right.

Important

Primary Nature of Referral: Similar to Very Important insurers, Important insurers identified in step 2 can be rated at the level of the group assessment, or between the group assessment and the stand-alone assessment, based on judgment and subject to various constraints. All else equal, Important insurers' ratings may be lower relative to the group assessment than will ratings of Very Important insurers.

Additional Considerations: As done for Very Important Insurers, Fitch may initially benchmark the IFS rating of an Important insurer by notching down from the group assessment. The degree of notching down is based on judgment, but is constrained by the distance between the group assessment and stand-alone assessment, unless a formal support agreement exists per step 3, with the typical highest rating level relative to the group assessment as follows in the top right table.

Figure V-4: Important: Initial IFS Benchmark

Group Assessment Superior to Stand-Alone Assessment[a]	Highest IFS Rating Relative to Group Assessment
0-2	Group Rating
3–5 Notches	2 Below
6+ Notches	4 Below

[a]If a formal support agreement exists per step 3, the highest IFS rating is the group rating, regardless of the distance between the group assessment and stand-alone assessment. IFS – Insurer Financial Strength.

Figure V-5: Important: IFS Rating Caps

(Linked to Financial Strength or External Barriers)

Group Assessment Superior to Stand-Alone Assessment[a]	Cap Based on Notching Up From Stand-Alone Assessment
0–2	No Cap
3–5 Notches	1 Above
6+ Notches	2 Above

[a]If a formal support agreement exists per step 3, the highest IFS rating is the group rating, regardless of the distance between the group assessment and stand-alone assessment. IFS – Insurer Financial Strength.

Additionally, as is done with Very Important and Core insurers, if the ability to support is potentially constrained per steps 4 or 5, the IFS rating may be capped as follows in the lower table on the right.

Limited Importance

Nature of Referral: Limited Importance insurers identified in step 2 may be rated on a stand-alone approach at the level of the stand-alone assessment unless a formal support agreement is in place per step 3.

Additional Considerations*:* When a formal support agreement is in place, a group member designated as Limited Importance can potentially have its IFS rating uplifted as high as the level of the group assessment, though the extent of any uplift is based on how strongly it sits within the strategic category. Fitch also typically places some caps on the degree of uplift, as follows.

Figure V-6: Limited Importance: Highest IFS Uplift due to Formal Support

	Level of Group Assessment	
Group Assessment Superior to Stand-Alone Assessment	No Financial Strength-Related Barriers: Notch Down from Group Assessment	Financial Strength-Related Barriers: Notch Up from Stand-Alone Assessment
0–2	Group Assessment	Group Assessment
3–5 Notches	1 Below	2 Above
6+ Notches	2 Below	3 Above

The Case of Multiple Core Businesses

The concepts above for the Very Important, Important, and Limited Importance categories not only apply to cases in which Fitch assigns IFS ratings to various members of a group, but they also apply when Fitch has identified several core businesses within a group, and assigns each core business a unique group assessment.

- The relative degree of linkage between the group assessments may be influenced by the same general principles as discussed above.
- If two core businesses are Very Important relative to each other, the two group assessments may more closely align than if the two are of Limited Importance.

Since cases of multiple core businesses tend to be present with larger, more complex organizations, Fitch has not developed standard notching guidelines as to how to set the two group assessments relative to each other. Instead, in such cases, Fitch uses judgment based on the general principles discussed throughout this report, and considers these relative to the unique aspects of the organization in question.

The Case of Minority Interests

If a material minority shareholder exists for a given group member (i.e. 20% or greater), Fitch may be less likely to apply as full of a rating uplift as would be otherwise implied under these criteria. Fitch's concern is that the existence of minority interests can affect fungibility of capital and other resources.

On the other hand, the existence of minority interests may also make Fitch more likely to rate a given group member above the group assessment if its stand-alone assessment is naturally higher than the group assessment. The existence of the minority interest would similarly make it more difficult to extract capital from the higher rated group member.

E. Changes in Strategic Category

Based on changes in circumstance, Fitch may at times change the strategic category assigned to a given entity. The change in strategic category in many cases may trigger a re-evaluation of the entity's rating as per the guidelines discussed in the previous section of this report. In some cases, such as a change in strategic category from Core to Limited Importance, the potential change in an entity's rating could be significant (i.e. multiple notches, if not multiple categories).

Below, Fitch discusses how ratings migration may occur when a change in strategic category is potentially indicated.

Trend

If a change in strategic category is based on emerging trends causing Fitch to question if strategic importance is increasing/decreasing, Fitch could change the Rating Outlook for a given entity, and that new Outlook could differ from the Outlook for the group more broadly.

For example, if a Core group has a Stable Rating Outlook, but Fitch is becoming uncomfortable with a particular Core entity that may be growing less strategic, Fitch could change the Rating Outlook on only that entity to Negative to flag the potential change in rating associated with its lessening strategic importance.

The opposite could be true of an insurer not fully uplifted to the Core group assessment, but whose strategic importance appears to be on the rise.

In such a case, once Fitch concluded a change in strategic category was warranted, ratings would be changed if otherwise indicated.

Divestiture — Buyer Identified

Another example that could prompt a change in strategic categorization would be an actual, pending, or possible divestiture. The nature of the ratings migration could vary greatly from case to case under such circumstances. In all cases, Fitch assumes that the divestiture will be of an entity whose actual IFS rating is higher than its stand-alone assessment due to the benefits of assumed group support.

If a group announces that it has reached an agreement to sell a previously supported entity, and the buyer is identified, Fitch may place the entity's rating on Rating Watch until the sale is complete.

Upon close of the transaction, the entity's rating may ultimately migrate to its stand-alone assessment, the group assessment of the buyer or somewhere in between, based on the ability and willingness of the new buyer to provide support (as per application of this criteria).

If for whatever reason Fitch does not and/or cannot rate the new buyer, or determine its willingness or ability to provide support, Fitch may withdraw the rating of the entity, at its pre-existing level, upon close of the transaction.

The directional indicator of the Rating Watch (i.e. Positive, Negative) will reflect Fitch's best estimate as to the likely direction in the rating, or the Rating Watch may be Evolving if Fitch cannot yet assess the likely direction. In such cases, if Fitch has developed a stand-alone assessment, and Fitch believes publishing it would be informational, Fitch may do so in its commentary supporting the Rating Watch.

Divestiture — No Buyer Identified

If the group announces that a previously supported entity is for sale but no buyer is yet identified, or that management is exploring strategic alternatives with respect the entity, Fitch may consider this as well.

While the action taken by Fitch may vary from case to case based on unique circumstances, such an announcement would typically cause Fitch to change its strategic category of the entity to as low as Limited Importance, and initiate a downgrade (if indicated by this criteria) upon the announcement.

The rationale in such a case is that the announcement by management, in and of itself, would indicate that a change in strategic importance has already occurred.

Further, without a buyer identified, the future financial strength of the entity is now unknown, which reflects a risk element to be reflected in the current rating.

In such a situation, management may indicate that it will only sell the company to a similarly rated new parent, and that if ultimately not sold, the company will be supported consistent with the prior degree of strategic importance. Such statements would typically be designed to suggest that the entity's financial strength may be maintained at its current supported level, despite the noted announcement. Such management representations may or may not affect Fitch's rating decisions based on Fitch's judgment.

Once a buyer is identified, the process described in the earlier paragraphs would be used, including use of any appropriate Rating Watch designation until the sale is completed.

Placement in Run Off

The decision of a group to exit a business by placing a group member(s) in run off would also likely prompt a change in strategic category (to Limited Importance). The rating impact of such a situation may be addressed on a case by case basis, and any ongoing linkage of the group member's rating to the group assessment may consider how the run off is managed, the stand-alone assessment based on the runoff profile, and any formal support agreement that may be put in place. Any management representation as to ongoing support to the runoff entity, such as to preserve the group's overall reputation in the broader market, may or may not affect Fitch's rating decisions based on Fitch's judgment.

See *Section VII* for additional details on ratings of runoff companies.

F. Referral of Weaknesses

Although the primary focus of this report centers on the principles for referring strengths from one affiliate to another, Fitch also considers the case of a weak affiliate pulling down the ratings of others in its group. Though an ailing affiliate may be neither Core, Very Important, or Important, most groups will avoid “walking away” from a problem affiliate due to the negative perceptions it could bring to its franchise.

In other words, management will often feel a moral obligation to ensure that an underperforming affiliate’s obligations are met, and will provide it with capital and other forms of financial support until a permanent solution is reached (usually through divestiture). Thus, even though no formal or informal support agreements may be in place, Fitch always considers the potential for implied support from stronger to weaker affiliates, even if such support would only be in place temporarily.

In these cases, Fitch may consider the amount of support that may be provided and its likelihood.

Fitch may then assess the negative impact to the insurers that would provide the support through capital contributions, additional borrowings, reinsurance agreements, absorption of expenses, or other means.

If the impact of these potential actions is material, Fitch may judgmentally adjust the ratings of the insurers potentially providing the support downward, and adjust the ratings of those receiving it upward.

G. Rating Above the Group Assessment

While rare, it is possible for a wholly owned group member to be rated higher than the group assessment under a narrow set of circumstances. Fitch's general hesitation to rate above the group assessment (other than in the previously discussed case of minority interests), is based on concerns that if a group came under financial stress, it may seek to extract capital or other resources from the higher rated group member to help assure the group's financial position.

For Fitch to consider a rating above the group assessment under these criteria, all of the following would need to be in place:

Stand-Alone Assessment Is Naturally Above the Group Assessment: The group member possesses its own independent operational and financial infrastructure and its business is generally unrelated to that of the group as a whole.

Strong Strategic Rationale to Be Rated Higher than Group Assessment: Typically, this would be present in a highly ratings-sensitive business in which the group member could not compete with a rating at the level of the group assessment. In such cases, there is logical incentive for management to manage the group member such that its financial resource will not be fungible to the other parts of the group. Fitch generally would not view the goal of attainment of a higher rating in a less ratings-sensitive business as sufficient rationale for purposes of the criteria (i.e. an auto insurer seeking an 'AA' rating versus the group assessment of 'A+').

Material Adverse Consequences for Group from Breaching Segregation: Stated another way, the adverse economic impact to the group resulting from a downgrade of the group member (resulting from extraction of financial resources) should far outweigh any economic benefit derived from extracting the financial resources. This should be true both in the expected case, and under plausible stress cases. Fitch believes this is the most important aspect of these criteria, and also the most difficult for management to demonstrate.

Reliance on the Group as a Whole for Financing Is Very Limited: An example may include capital contributions to support growth. The more reliant the group member is on the performance of the lower rated group, the less likely it is that Fitch would rate the group member higher than the group assessment. A demonstrated ability of the group member to grow capital organically at a rate consistent with revenue or premium growth is helpful in meeting this guideline.

While there are no theoretical limits on the notching between the group assessment and stand-alone assessment, it would be extremely rare for the group member to be rated more than one to three notches above the group assessment.

If provided to Fitch, the agency may review any structural protections management has put in place that may limit the ability of the group to extract capital and other financial resources from the group member. However, under this criteria report, these are simply considered informational, and would not affect the degree of notching or Fitch's decision to rate above the group assessment. Fitch recognizes that under extreme stress conditions, it is likely that most structural protections could be reversed (since the group controls the wholly owned group member's board of directors), making them of little value when most needed.

H. Support in Emerging Markets

The participation of international insurance groups in emerging markets presents special challenges when applying a group rating methodology. Despite the important position these groups may hold in developing countries, the ratings of emerging market subsidiaries must consider several risk elements. These include issues related to:

- Relatively small size within the overall group.
- Often small size within the local market.
- The relative importance of growth in emerging markets to overall group strategy.
- The possibility that legal issues or government intervention may limit the ability or willingness for group support.

Historic examples of sovereign stress and government interference in Argentina and Venezuela highlight the challenges of referring group strength in emerging markets. Considering these issues and the limitations regarding size, strategic importance, and geographical isolation, most of the local operations of international insurers would not be considered Core. Similarly, Very Important and Important insurers would be found less frequently than those in developed markets. Limitations regarding the enforcement of any agreement of support, even if deemed formal, could also limit the rating uplift.

Assigning international foreign currency ratings to entities domiciled in countries with a low sovereign rating could result in additional limitations for the group rating methodology, given potential additional constraints placed on ratings via the country ceiling (for more information, see the criteria report “Country Ceilings” at www.fitchratings.com).

The Case of Sovereign-Owned Entities

As with other parent/subsidiary relationships, principles underpinning these criteria can apply in cases when an insurance organization is a sovereign-owned entity (SOE). While in a majority of cases, Fitch would not view sovereign ownership as strategic, and thus rate the SOE under the stand-alone approach, in some cases sovereign ownership could warrant referral of strength.

Such referral of a sovereign’s strength in the rating of the SOE would likely be most pronounced in developing markets in which a government sponsors an insurance organization to assure capacity in the market at affordable prices, or to help assure overall economic stability. In these cases, the SOE could be considered Core, Very Important, or Important, and its credit rating would be established based on the relationships between the stand-alone assessment and rating of the sovereign.

In cases in which the SOE’s rating is derived by notching down from the rating of the sovereign, the sovereign’s local currency (LC) IDR is used as the starting point for establishing the SOE’s LC IDR ratings, and the sovereign’s foreign currency (FC) IDR is used as the starting point to establish the SOE’s FC IDR ratings. Notching to the LC or FC IFS rating from the IDRs would follow Fitch’s typical methodology based on recovery assumptions for policyholder obligations. In addition, any applicable country ceilings would apply.

Finally, this criteria with respect to SOEs does not apply to cases of temporary government support and related ownership (such as via a bailout), but rather when the ownership relationship is expected to be enduring.

I. Summary of Steps in Applying Group Rating Criteria

Step 1 — Develop Group Assessment

Develop a group assessment (GA), based on analysis of consolidated financial information and/or by combining analysis of various subsidiary companies. The criteria supporting this fundamental credit analysis is referenced in *Section I* of this report.

Step 2 — Assessment of Strategic Category (Willingness to Support)

For each insurance company to be rated, using the descriptions found on pages 58–59 of this report, classify as: Core (C), Very Important (VI), Important (I), or Limited Importance (LI).

Step 3 — Review Support Agreements (Willingness to Support)

If available, review any support agreements and classify as formal (FS) or informal (IS) per the descriptions on page 61 of this report.

If formal (FS), this may positively influence rating uplift in Step 7.

Step 4 — Barriers Based on Financial Strength (Ability to Support)

If the group assessment in step 1 is below 'A–', consider if this could limit the ability to the group to provide support. In some cases, a rating higher or lower than 'A–' should be used per the commentary on page 64.

If financial strength barriers (FB) exist, this may negatively influence rating uplift in Step 7.

Step 5 — External Barriers (Ability to Support)

Review if any regulatory, legal, or other external barriers exist that could materially affect the ability of the group to move capital if needed for support as per pages 62–63 of this report.

If external barriers (EB) exist and are extreme, a stand-alone approach (SA-Ap) is used and the stand-alone assessment (SAA) applies, unless a FS agreement is in place. If there is a FS, Step 7 is then used to determine its impact.

If EBs are of concern but do not warrant an SA-Ap, they may still negatively influence uplift in Step 7.

Step 6 — Develop Stand-Alone Assessments

If deemed useful, develop an SAA for group member(s). SAAs are typically only developed in select circumstances per page 64. The criteria supporting the fundamental credit analysis used to develop a SAA is referenced in *Section I* of this report.

Step 7 — Guidelines

Ratings are ultimately set using judgment by applying the concepts discussed through this criteria report with respect to ability and willingness to support. The following guidelines are used to augment that judgment. These guidelines should not be interpreted as rigid "rules."

I. Summary of Steps in Applying Group Rating Criteria (Continued)

Note: Guidelines demonstrate typical highest attainable rating.

Part A — If Core (C), Very Important (VI), or Important (I)

Strategic Category	Typical Rating Approach	What is No. Notches GA to SAA?	Initially, What is Highest Rating Relative to GA?	What is Highest Rating if There is an FS?	What Are Additional Constraints if Concerns Related to FB and/or EB? (Relative to SAA)
C	G-Ap	0–2[a]	GA	GA	No Cap
		3–5	GA	GA	3 Above
		6+	GA	GA	4 Above
VI	PA-Ap	0–2	GA	GA	No Cap
		3–5	1 Below	GA	2 Above
		6+	3 Below	GA	3 Above
I	PA-Ap	0–2	GA	GA	No Cap
		3–5	2 Below	GA	1 Above
		6+	4 Below	GA	2 Above

[a]In many cases for Core subsidiaries, there will be no stand-alone assessment. In such cases, this row applies.

Part B — If Limited Importance (LI)

What is No. Notches GA to SAA?	Typical Rating?	If There Is a Formal Support (FS) Agreement, What is the Maximum Rating Uplift? If No FB (Down from GA)	IF FB (Up from SAA)
0–2	SAA	GA	GA
3–5	SAA	1 Below	2 Above
6+	SAA	2 Below	3 Above

Final Step — Applies Only If Recovery Differences

If the various group members would be expected to have different recoveries in an insolvency, then their IFS ratings may need to be notched relative to the group IDR rating, per notching criteria referenced in *Section VI*.

Legend

Assessment Types

GA – Group Assessment
SAA – Stand-Alone Assessment

Support Agreement Types

FS – Formal Support
IS – Informal Support

Barriers to Support

FB – Financial Strength Barriers
B – External Barriers

Strategic Categories

C – Core
VI – Very Important
I – Important
LI – Limited Importance

Rating Approaches

SA-Ap – Stand-Alone Approach
PA-Ap – Partial Attribution Approach
G-Ap – Group Approach

VI. Notching: Debt, Hybrids and Holding Companies

A. Overview

B. General Impact of Regulation

C. Insurance Company to Holding Company Notching

D. Debt and Hybrid Notching Relative to IDR

E. "Other" Regulatory Impact: IFS/IDR Notching

F. Sovereign Constraints Impact

G. Distressed and Low-Rated Debt Notching

H. Summary of Regulatory Classification Assumptions

I. Notching Examples

A. Notching — Overview

The concept of "notching" refers to the practice of establishing a given rating relative to a defined "anchor rating," using guidelines linked to certain characteristics of the rating being notched. For purposes of insurance criteria, notching involves:

- IFS Rating-Initial Anchor: The typical first step in the notching process is to establish the IFS rating of the operating company(ies) as the initial anchor rating. The operating company IDR is then notched from the IFS rating.
- Holding Company-Operating Company: Notching considers the relationship between the IDR of an operating company(ies) and the IDR of the parent holding company. In such a case, the IDR of the operating company acts as the anchor rating.
- Debt/Hybrid Ratings IDR: Notching considers the relationship between the ratings of debt and hybrid instruments relative to the IDR of the issuer, whether an insurance operating company or holding company. The respective IDR(s) acts as the anchor.

The notching of the various debt and hybrid obligations is based primarily on the assumed relative recoveries of the obligation in the event of default. Higher recovering obligations are notched up from the IDR, and lower recovering obligations are notched down from the IDR. For hybrid securities, notching can also be influenced by risks related to features that could cause the hybrid to become nonperforming prior to a broader default by the company.

Typical notching of obligation ratings relative to the IDR for recovery only is shown in the table below.

Figure VI-1: Typical Notching Relative to IDR (Recovery Only)

	Degree of Notching	
Recovery Prospects	**Investment Grade**	**Non-Investment Grade**
Outstanding	+2	+3 (Secured), +2 (Unsecured)
Superior	+1	+2
Good	+1	+1
Average	0	0
Below Average	–1	–1
Poor	–2	–2 or –3

IDR – Issuer Default Rating.
Source: Fitch.

In applying the above guidelines, Fitch typically uses baseline recovery assumptions for different classes and types of insurance obligations for issuers with IDRs of 'BB–' and above. These recovery assumptions can be found in the *Figure VI-3* on page 80. In the insurance industry, the "Good" through "Poor" recovery categories cited above are most applicable given the limited use of secured debt by insurance entities.

For IDRs below 'BB–', Fitch aspires to develop specific bespoke (or tailored) recovery estimates, and may assign a Recovery Rating (RR) of 'RR1' through 'RR6'. The methodology supporting bespoke recovery analysis and assignment of RRs can be found in *Section IX*. Notching guidelines for lower non-investment-grade IDRs and distressed debt is on page 85.

The remainder of this *Section VI* describes the assumptions and methodology supporting notching in the insurance industry.

Global Systemically Important Insurers

From a notching perspective, Fitch does not currently treat G-SIIs (or SIFIs) differently than non-G-SIIs in their respective jurisdictions. However, Fitch expects that over time, regulatory standards and resolution schemes used for G-SIIs will become clearer. If at some point Fitch concludes that the regulatory approach applied to G-SIIs differs in key areas important to our notching assumptions, Fitch will update its criteria at that time.

IFS Rating As Anchor/ Operating Company IDR

The IFS rating of the operating company(ies) acts as the initial anchor rating in the notching process. The IFS rating is primarily established by application of the key rating factors discussed in *Section I* of these criteria.

The IFS rating typically assumes a recovery of "Good". In this most common case, the IDR of the operating company will be notched down by one from the IFS rating. The IDR is meant to be "recovery neutral," and is thus aligned with an "Average" recovery assumption.

Section VI-E. discusses additional guidelines for when the recovery assumption for the IFS rating is other than Good.

B. General Impact of Regulation

The form of regulation establishes a theoretical foundation throughout these notching criteria. Fitch classifies regulation as being either "Group Solvency," "Ring Fencing" or "Other."

Group solvency regulation is assumed to exist when two broad conditions are met:

- Laws and rules are in place that protect policyholder interests by imposing a robust capital requirement at both the insurance operating company and consolidated group holdings levels.
- A group regulator and/or regulatory college system is in place to resolve a troubled group, and that key group members and local regulators would be expected to participate. In addition, no material group member, including the holding company, should have a clear legal ability to seek bankruptcy protection, or any other legal remedy, that places it outside the group regulator's resolution authority.

Ring-fencing regulation is assumed to exist under these criteria when the regulatory intent is rooted in protecting policyholder interests by essentially isolating insurance operating companies from the risks of other group members, including both holding companies and non-insurance affiliates. Such ring fencing is often attained by some combination of:

- Imposing robust capital and other standards at the individual operating company level.
- Limiting the flow of capital or funds from the operating insurance company to group affiliates/shareholders via restrictive financial formulas, required pre-approvals by regulators or by other means.

While the Ring-Fencing approach is focused on isolating the operating company from other group risks, regulators typically still have authorities to monitor non-insurance risks.

In practice, some regulatory regime share elements of both group solvency and ring fencing. When in doubt, Fitch will err on the side of a Ring-Fencing classification, since Group Solvency is still relatively new, and ring fencing typically results in more conservative outcomes.

The word "Other" is used as the regulatory classification in cases when the solvency regime is limited in scope, which would be most common in certain offshore locales or some developing markets.

See summary of regulatory classification by country per *Figure VI-9: Regulatory Classification Summary*.

Holding Company Liquidity and Notching

Typically, Fitch will not compress notching in a Ring-Fence environment due to a holding company carrying high levels of cash (including highly liquid, high-quality, unaffiliated invested assets). Holding company liquidity is typically considered in ratings as part of the assessment of financial flexibility per *Section I-H* of these criteria.

However, on an exception basis, Fitch may compress holding company notching when holding company cash is large and enduring. Fitch would look for the following:

- Holding company cash has exceeded 75% of holding company debt/hybrid obligations in each of the past five years
- Management has made statements of its intention to maintain such high levels of holding company cash in at least the intermediate term (i.e. no plans to use to fund merger and acquisition activities or repurchase shares).
- IFS ratings are in the 'A' category or higher.

C. Insurance Company to Holding Company Notching

The notching between the insurance operating company IDR and its parent holding company IDR is based on the perceived difference in default risk between the two entities. This assessment will be heavily influenced by the style of regulation employed, as follows:

- Group Solvency regulation will generally result in an assumption by Fitch that core group members at both the operating and holding company levels share the same risk of default or failure, thus resulting in minimal to no notching between entity IDRs.
- Ring Fencing will generally result in an assumption that the default or failure risk among operating companies and the holding company can vary, resulting in greater use of IDR notching.

No notching is used in Other regulatory environments, but rating levels overall will typically be lower than in environments with more robust regulation.

Because the concept of regulatory colleges is still relatively new, application of a Group Solvency approach becomes less clear for global insurance groups. Fitch believes that in a global context, in many cases, local regulators will ultimately act in the best interest of local policyholders, even if to the detriment of the group as a whole. Thus, in such cases, a Ring-Fencing assumption may be used.

In practice, for global groups where more than 30% of earnings or capital comes from countries that are expected to ring fence (even if a Group Solvency approach is applied locally) , notching down will typically be applied. Fitch would be most likely to assume cross-border Group Solvency for groups operating only within the European Union.

Figure VI-2: IDR Notching Guidelines — Insurance Company to Holding Company

	Regulatory Environment		
	Ring Fencing	Group Solvency[a]	Other
Investment Grade	–1	0	0
Non-Investment Grade	–2	–1	–1

[a]If foreign subsidiaries make up 30% or more of earnings/capital, ring fencing may be employed.
Source: Fitch Ratings.

Financial Leverage and Coverage Adjustments

For Ring-Fencing environments, holding company notching is additionally influenced by:

- The degree of financial leverage.
- Fixed-charge coverage.

For larger, debt-issuing organizations, Fitch views a financial leverage ratio (FLR, i.e. debt to capital) that falls within a range of 16%–30% to be typical for the insurance industry. In Ring-Fencing environments, leverage below this level may cause the agency to compress IDR notching by one notch (i.e. by uplifting the holding company IDR). Similarly, an FLR that is higher than 30% may lead Fitch to widen notching by one (i.e. by lowering the holding company IDR).

Strong or weak fixed-charge coverage can also influence relative default risk and notching in a Ring-Fencing environment. For a typical FLR in the 16%–30% range, Fitch would consider coverage to be unusually positive at levels greater than 12.0x, and unusually negative at levels less than 3.0x. Fitch may consider tightening or widening IDR notching for unusually favorable or unfavorable fixed-charge coverage.

In addition to widening or narrowing notching in Ring-Fencing environments, particularly large variances in financial leverage or coverage can also move all operating and holding company ratings in tandem. This will happen when Fitch concludes that the noted leverage or coverage variance becomes material to the operating company IFS rating (as the initial anchor). The impact on the operating company IFS rating can be positive or negative. In Ring-Fencing environments, such variances would typically be especially large for the operating company IFS rating to be affected, as opposed to holding company notching being adjusted.

In Group Solvency environments, variations in leverage and coverage will not influence notching in cases when operating and holding company IDRs are aligned. However, leverage and coverage will have a higher weighting on the operating company IFS rating than in Ring-Fenced environments, with the IFS rating more sensitive to even moderate variances.

See *Section I-H* for median coverage ratios by rating category for non-life and life insurers.

Secured Debt

Use of secured debt in the insurance industry is fairly rare, since insurance is typically an investment-grade sector, and secured debt is most common for natural below investment-grade issuers.

If secured debt were to exist for an investment-grade (or high non-investment-grade) issuer, Fitch would employ a bespoke analysis to judge the recovery assumption (similar, but likely less detailed, than that discussed in *Section IX*.) However no Recovery Rating would be published unless the IDR was below 'BB–'.

In addition, if the secured debt was large and could have the first claim on a material portion of post-default assets, Fitch may use lower baseline recovery assumptions for more junior securities than shown to the right.

D. Debt and Hybrid Notching Relative to IDR

Recovery Assumptions

The notching of specific issue ratings relative to the IDR of the issuing entity, be it a holding company or insurance operating company, is first based on the expected recoveries of each debt issue/obligation in the event of a default. These are based on baseline assumptions shown in the table below when the IDR is 'BB–' and above, and may be based on specific bespoke RRs for IDRs below 'BB–'.

Figure VI-3: Baseline Insurance Recovery Assumptions

	Regulatory Assessment		
Obligation Type	**Ring Fencing**	**Group Solvency**	**Other**
Insurance Company			
Unsecured Senior Debt	Average	Average	Average or Below Average
Subordinated	Below Average	Below Average	Below Average or Poor
Deeply Subordinated	Poor	Poor	Poor
Holding Company			
Unsecured Senior Debt	Below Average	Below Average	Below Average or Poor
Subordinated	Poor	Poor	Poor
Deeply Subordinated	Poor	Poor	Poor

Source: Fitch Ratings.

Fitch generally assumes all debt issues of a given issuer share the same default risk, as reflected in the issuer's IDR. Relative recoveries among the various issues based on their legal seniority ranking dictate notching.

- Those debt instruments or obligations with Average recovery prospects (defined by Fitch as 31%–50%) may be rated equal to the IDR.
- High recovering secured debt can be rated two notches above the IDR at investment grade and three notches above (capped at 'BBB–') for non-investment grade.
- Obligations with the weakest recovery prospects can be rated up to three notches below the IDR based on expected Poor recoveries at default (at non-investment grade).
- Hybrids with significant Nonperformance features can be notched lower than implied by recovery alone.

Generally, for a given recovery expectation, the degree of notching may tighten relative to the IDR as one moves up the rating scale, and widen moving down the scale, in order to increase the weighting of recoveries on below investment-grade ratings and increase the emphasis on probability of default on investment-grade ratings. See *Figure VI-1* for details.

Senior Debt Recoveries and Notching

For holding companies, Fitch typically assumes that unsecured senior debt recoveries are at a level of Below Average and for insurance operating companies the unsecured senior debt recovery is assumed to be Average. The more punitive assumption for holding companies reflects an assumption of holding company debt being exposed to deeper effective subordination than debt carried at the operating company level.

This is because funds supporting recoveries for the holding company of a failed insurance company subsidiary may be limited to holding company-level assets or the funds from any other non-insurance subsidiaries. While in some cases these can prove to be significant, Fitch believes that they will be quite modest in a majority of cases.

Bancassurance Recovery Assumptions

In markets that employ bancassurance, Fitch will typically use insurance recovery assumptions for the various insurance operating and holding company liabilities. However, on an exception basis, rating committees may determine to use bank-like recovery assumptions for debt and hybrid obligations of an insurance holding company in a bancassurance group. This would occur if the committee concludes the holding company would be subject to a bank-like resolution. Bank-like recovery assumption would rarely, if ever, be applied to the insurance operating company level.

Insurance Revenue Bonds

In select cases, Fitch will rate government sponsored/ organized insurance entities in the U.S. whose debt has certain elements similar to a municipal revenue bond. For example, government-sponsored providers of catastrophic risk cover for which a key source of funding is industry premium assessments. In such cases, the Issuer Default Rating (IDR) is heavily influenced by the strength and stability of the assessment (revenue) stream. The bond rating will align with the IDR, without use of any notching up/down from the IDR related to an assumed recovery.

The table below illustrates typical notching relative to the IDR for unsecured senior debt of insurance organizations at an investment-grade IDR:

Figure VI-4: Senior Debt — Typical Investment-Grade Notching

	Regulatory Environment		
Issuer Type	**Ring Fencing**	**Group Solvency**	**Other**
Insurance Company			
Baseline Recovery	Average	Average	Average or Below Average
Notching Relative to IDR	0	0	0 or –1
Holding Company			
Baseline Recovery	Below Average	Below Average	Poor
Notching Relative to IDR	–1	–1	–2

Source: Fitch Ratings.

Subordinated Debt Recoveries and Notching

Like senior debt, straight subordinated debt instruments (i.e. those without nonperformance features) are notched relative to the IDR based on their baseline recovery assumptions.

At the operating company level, Fitch assumes a Below-Average recovery for subordinated debt in the event of default. At the holding company level, consistent with its expectations of lower recoveries of senior debt, Fitch assumes an even lower level of recoveries for subordinated debt, at Poor. Typical notching for straight subordinated debt is illustrated below.

Figure VI-5: Subordinated Debt[a] — Typical Investment-Grade Notching

	Regulatory Environment		
Issuer Type	**Ring Fencing**	**Group Solvency**	**Other**
Insurance Company			
Baseline Recovery	Below Average	Below Average	Below Average or Poor
Notching Relative to IDR	–1	–1	–1 or –2
Holding Company			
Baseline Recovery	Poor	Poor	Poor
Notching Relative to IDR	–2	–2	–2

[a]Table illustrates subordinated debt that does not contain nonperformance features. See Hybrid Notching for subordinated debt with nonperformance features.
Source: Fitch Ratings.

Hybrid Notching

Hybrid notching involves two steps:

- Notching is first established based on recovery expectations per *Figure VI-5*.
- Hybrids are additionally notched if they include Nonperformance features, such as coupon deferrals/omission, principal writedowns or contingent conversion.

Typically, the existence of a Nonperformance feature may cause Fitch to notch down the hybrid from the issuer's IDR by one or more additional notches, compared with the notching of like ranking/recovering debt per *Figure VI-5*. Generally, the more easily activated the feature is perceived to be, the greater the additional notching.

Typically, hybrid features that are based on management discretion are considered to be less likely to be triggered. Those where discretion is given to regulators, or where triggering is mandatory based on a conservative financial metric and without other constraints, are generally considered more likely to be triggered.

U.S. Surplus Notes and Japanese Kikin

Surplus notes issued by U.S. insurance companies and kikin issued by Japanese insurance companies are generally notched down by one from the IDR of the insurance company on an assumption of Below Average recoveries (1 notch), and Minimal Nonperformance risk (0 notches). Regulators have historical appeared hesitant to impose deferrals on these instruments except under relatively severe stress.

However, if the financial leverage ratio of the insurance company (counting surplus notes or kikin as debt) exceeds 15%, the surplus notes or kikin will typically be notched down by two, as in such a case deferral risk is assumed to increase into the Moderate category.

Regulatory discretion over hybrid features is more typically present in jurisdictions using a Group Solvency approach, and where hybrids can be potentially included in regulatory capital, based on their Nonperformance features. It is less prevalent in Ring-Fencing environments, such as for U.S. holding companies that issue hybrids.

Fitch's insurance criteria for nonperformance notching is aligned with the section *Notching for Non-Performance Risk* of Fitch's bank criteria report *Global Bank Rating Criteria* (November 2016). Readers should also be familiar with the noted section of the bank report since aspects of it are incorporated into these insurance criteria by reference and provides a more detailed explanation of various concepts.

Nonperformance risk is classified into one of three broad categories, as follows:

- Minimal: Hybrid feature is not expected to trigger until the point at which a company may otherwise fail or default, such as when a mandatory trigger is tied to a capital ratio level that aligns with regulatory intervention. It would also apply in most cases when a trigger, such as a deferral, is left to the discretion of the company (with no expectation of pressure applied by a regulator to enact the trigger) and/or the trigger is highly complex with look-back features, etc., that make the ability to trigger questionable.
- Moderate: Used for cases that fall between Minimal and High.
- High: Hybrid feature is expected to be triggered well in advance of failure, and the regulator is believed to have significant influence over enactment of a trigger, and would be expected by Fitch to exert such influence if circumstances warrant. In some cases, the regulator may be granted contractual discretion over a trigger, but often there will be no explicit regulatory authority within the terms of the hybrid. Rather, the regulator would be expected to exert significant pressure on the company to, for example, defer a coupon, and the hybrid includes no features blocking a deferral. Such expectations of regulatory behavior are often highly judgmental and can vary by jurisdiction, issuer and hybrid instrument of a given issuer. Another example is a trigger linked to a "buffer" capital ratio level that is well above a regulatory minimum, and is only modestly below a level that would be considered a very safe target.

The following table illustrates the degree of additional notching employed for Nonperformance risk.

Figure VI-6 — Hybrid Nonperformance Risk Notching

Risk Levels	Additional Notching	Examples
Minimal	0 or 1[a]	Many legacy hybrids, Solvency 2 Tier 3 hybrids, and weaker Tier 2 hybrids, such as those with look-back features. Capital ratio triggers include 100% of Solvency 1 ratios, 100% of Solvency 2 MCR, 100% of US NAIC RBC ACL, 120% of Canada MCCSR and 200% of Japan SMR.
Moderate	1 or 2[a]	Stronger Solvency 2 Tier 2 hybrids, such as those with mandatory triggers that are fairly conservative but may include some constraints. Example capital triggers include 100% of Solvency 2 SCR, 150% of US NAIC RBC ACL and 150% of Canada MCCSR.
High	3 or More	Solvency 2 Tier 1 hybrids with very easily activated trigger such as full coupon discretion (and expectation of regulatory pressure), or capital ratio trigger set well above regulatory minimums and without other constraints.

[a]For Minimal, 0 is used as the baseline in Group Solvency environments, with 1 used as the baseline in Ring-Fencing environments. For Moderate, 1 is the baseline for Group Solvency and 2 is used as the baseline for Ring Fencing. Note: Regulatory environment is defined based on country of hybrid issuer, and Group Solvency will be used for hybrid notching in a country employing Group Solvency even if Ring Fencing is employed for holding company notching due to the "30% foreign capital/earnings" guideline. MCR – Minimum capital requirement. ACL – Authorized control level. MCCSR – Minimum continuing capital and surplus requirements. SMR – Solvency margin ratio. SCR – Solvency capital requirement.
Source: Fitch Ratings.

IFS Recovery Assumptions

The typical assumption of Good for IFS recoveries is based on Fitch's belief that when regulation is effective, regulators will intervene early enough such that assets will be preserved enterprise-wide in a distressed scenario. Thus, policyholder or reinsurance obligations, as the largest and most dominant liability, will share in the strong recoveries of the enterprise as a whole, whether afforded priority or not.

Recovery expectations tied to IFS policyholder obligations do not consider recoveries available to a policyholder from regulatory guarantee funds. They only reflect recoveries available from the assets of the insurance or reinsurance company itself. Similarly, recoveries available from the provision of security to collateralize reinsurance balances to specific unaffiliated ceding companies are not considered.

E. 'Other' Regulatory Environment: IFS/IDR Notching

As noted, when regulation is considered to be effective (classified as Group Solvency or Ring Fencing), Fitch uses a recovery assumption of Good for the IFS rating, and notches down the IDR from the IFS rating by one notch. However, when the regulatory classification is Other, this can affect both the level of the IFS rating and can also influence notching to the operating company IDR.

The weaker the regulatory environment generally, and the lower the IFS recovery assumption, the lower the IFS rating will be established. All else equal, the IFS will be pulled down by one notch for an Average recovery assumption, by two for Below Average recovery and by three for a Poor recovery. The pull down effect could be even greater if regulatory weaknesses are expected to impact the insurer's financial strength beyond recovery.

Fitch's cross-sector criteria report, *Country Specific Treatment of Recovery Ratings,* also has relevance to the level of the IFS rating tied to recovery assumptions. This report discusses caps that can be placed on recovery assumptions in jurisdictions where enforceability of credit protections is limited or questionable.

A regulatory classification of Other can also affect the notching of the operating company IDR, as follows (the IDR is "recovery neutral," and thus, is thus always aligned with a recovery assumption of Average).

Figure VI-7a: Operating Company IDR Rating Notching — For Other Regulatory Environment

	Recovery Assumption for IFS Rating		
	Average	**Below Average**	**Poor**
IDR Relative to IFS	0	+1	+2

IDR – Issuer Default Rating. IFS – Insurance Financial Strength.
Source: Fitch Ratings.

F. Sovereign Constraint Impact

The notching exercise is applied to an anchor rating (typically the operating company IFS rating) that assumes no sovereign constraint. Instead, if a sovereign constraint (or country ceiling) is applicable (see *Section I-B*), it is applied as the last step in the ratings process.

For example, assume a situation where Fitch employs a sovereign constraint of ‘A–’. Additionally assume an unconstrained local currency operating company IFS rating of ‘A+’ for a given issuer. Also assume the goals of the notching exercise are to establish an operating company IDR rating based on a Good recovery assumption for the IFS, a holding company IDR under Group Solvency, an unsecured senior debt rating of the holding company based on a Below Average recovery and a holding company hybrid rating using a Poor recovery and Moderate (two notch) Nonperformance assumption.

The following table illustrates the two step process.

Figure VI-7b: Example of Two-Step Notching Process/Sovereign Constraints

Rating Type (Notches)	Step 1 Unconstrained	Step 2 Apply Constraint
IFS Rating (Anchor)	A+	A–
Op Co IDR (–1)	A	A–
Hold Co IDR (0)	A	A–
Unsecured Senior (–1)	A–	A–
Hybrid (–4)	BBB–	BBB–

IDR – Issuer Default Rating.
Source: Fitch Ratings.

The above illustration applies only to the case of a sovereign constraint or country ceiling being applied as a final step in the rating process, in which the impact of sovereign or country risks cannot be fully identified in any given credit factor. This is most common when Fitch believes the general environment for insurance companies is becoming, or has become, riskier and should constrain ratings, but how those risks will be manifested is not yet clear. It is also common when a country ceiling is applied to reflect general transfer and convertibility risks.

When sovereign- or country-related risks are fully identifiable within the applicable credit factors, these will be directly reflected in the anchor IFS rating. In such a case, normal notching is applied relative to that anchor rating and will not result in the compression of ratings illustrated in *Figure VI-7b*.

G. Distressed and Low-Rated Debt Notching

Fitch uses the guidelines in the table below to assign issue ratings to defaulted and distressed debt issues, as well as performing debt rated 'B+' and below.

Per Fitch methodology, the issue rating for defaulted debt is based on the RR assigned to the issue (see *Section IX)*. For example, looking at the columns for IDRs of 'RD' and 'D', a defaulted debt issue with a RR of 'RR2' may be rated 'CCC'. A defaulted issue with a 'RR3' may be rated 'CC'.

As can be observed, notching for debt instruments at the lowest end of speculative grade is compressed. The debt instruments assigned to bonds of issuers that have defaulted, or are very close to default, show little distinction between 'RR4' and 'RR6' recoveries.

At this point, it is generally useful for the reader to refer to the published RR in addition to the instrument rating, as is an instrument rated 'C' were to default this may imply an expected loss anywhere between 50% (if it is rated 'C/RR4') and 100% (if it is rated 'C/RR6').

Figure VI-8: 'B' and Below IDR/Debt Instrument Mapping

	Distressed and Defaulted Bonds							
IDR	**B+**	**B**	**B–**	**CCC**	**CC**	**C**	**RD**	**D**
RR1	BB+	BB	BB–	B+	B	B–	B–	B–
RR2	BB	BB–	B+	B	B–	CCC	CCC	CCC
RR3	BB–	B+	B	B–	CCC	CC	CC	CC
RR4	B+	B	B–	CCC	CC	C	C	C
RR5	B	B–	CCC	CC	C	C	C	C
RR6	B–/CCC	CCC/CC	CC/C	C	C	C	C	C

IDR – Issuer Default Rating.
Source: Fitch Ratings.

H. Summary of Regulatory Classification Assumptions

Figure VI-9: Regulatory Classification Summary

(The following apply to primary insurers and reinsurers, and typically exclude captives)

Country	Classification[a]
Australia	Group Solvency
Barbados	Other
Belarus	Other
Bermuda	Group Solvency
Brazil	Ring Fencing
Canada	Ring Fencing/Group Solvency[b]
Cayman Islands	Ring Fencing[c]
Chile	Ring Fencing
China	Group Solvency
Colombia	Ring Fencing
Costa Rica	Ring Fencing
Dominican Republic	Other
El Salvador	Other
European Economic Area	Group Solvency
Guatemala	Other
Honduras	Other
Hong Kong	Ring Fencing
Indonesia	Ring Fencing
Japan	Group Solvency
Kazakhstan	Other
Malaysia	Ring Fencing[c]
Mauritius	Ring Fencing
Mexico	Ring Fencing
New Zealand	Ring Fencing
Nicaragua	Other
Panama	Other
Peru	Ring Fencing
Russia	Other
Singapore	Ring Fencing[d]
South Africa	Group Solvency
South Korea	Ring Fencing
Sri Lanka	Ring Fencing
Switzerland	Group Solvency
Taiwan	Group Solvency
Thailand	Ring Fencing
United States	Ring Fencing
Venezuela	Other

[a]Regulatory classifications shown here have relevance only from the perspective of these notching criteria. No other inferences should be drawn. Some jurisdictions have characteristics that include elements of "ring fencing" and "group solvency". In these cases, Fitch set the classification based on which elements were most important to Fitch's general notching principals. [b]Typically, holding companies are not formally regulated in Canada, though several of the largest formerly mutual life insurers have regulated holding companies and some stock companies have entered into an agreement with the regulator creating some heightened direct holding company regulation. Thus, the regulatory designation used in Canada will differ from company to company depending on circumstance. [c]Applies only to Class D reinsurers as defined by Cayman Islands regulations. All other classes are Other. [d]If enhanced capital standards at the parent/holding company level are implemented within Malaysia's and Singapore's insurance regulations as expected in 2018 and 2017, respectively, the country regulatory classification will likely change to Group Solvency at that time. Prior to that, rating committees will determine on a group by group basis whether notching should be based on Ring Fencing or Group Solvency assumptions based on the nature of any specific capital standards currently put into place by the regulator for a specific group at the consolidated parent/holding company level.
Source: Fitch Ratings.

I. Notching Examples

The next page includes tables showing how notching would work under both the ring-fencing and group solvency regulatory regimes.

- The examples include four cases of debt issuance: no debt is issued, debt is issued by a holding company, debt is issued by the operating company and debt is issued by both the operating and holding company.
- The four cases are shown at both investment grade, assuming an anchor IFS rating of 'A+' for the insurance operating company, and at non-investment grade using a 'BB+' IFS rating.

In all four cases, the IFS rating assumes a recovery of Good, and thus, the operating company IDR is shown as notched down by one from the IFS rating. All other notching amounts (i.e. –1 or –2) are shown relative to the IDR of the operating company. In all cases, Fitch assumed average levels of financial leverage and fixed-charge coverage such that these characteristics would not influence notching.

Unsecured senior and subordinated debt is illustrated to be straight debt, with no deferral or other loss absorption features. Thus, the notching illustrated is influenced only by assumed recovery levels.

Hybrids are shown for the Minimal and High Nonperformance classifications only.

Figure VI-10: Notching Examples

I. Ring-Fencing Environment:

	IG Case		Non-IG Case	
1. No Debt Issued				
Insurance Operating Company				
IFS Rating (Good)	A+	—	BB+	—
IDR of Op Co	A	(–1)	BB	(–1)
2. Debt Issued by Holding Company				
Insurance Operating Company				
IFS Rating (Good)	A+	—	BB+	—
IDR of Op Co	A	(–1)	BB	–1)
Holding Company				
IDR of Hold Co	A–	(–1)	B+	(–2)
Unsecured Senior (Below Average)	BBB+	(–2)	B	(–3)
Subordinated Debt (Poor)	BBB	(–3)	B–/CCC+	(–4 to –5)
Hybrid — Minimal Nonperformance Risk (Poor)	BBB/BBB–	(–3 to –4)	B– to CCC	(–4 to –6)
Hybrid — High Nonperformance Risk (Poor)	BB	(–6 +)	CCC–/CC	(–7 to –8 +)
3. Debt Issued by Insurance Company				
Insurance Operating Company				
IFS Rating (Good)	A+	—	BB+	—
IDR of Op Co	A	(–1)	BB	(–1)
Unsecured Senior (Average)	A	0	BB	0
Subordinated Debt (Below Average)	A–	(–1)	BB–	(–1)
Hybrid — Minimal Nonperformance Risk (Poor)	BBB+/BBB	(–2 to –3)	B+ to B–	(–2 to –4)
Hybrid — High Nonperformance Risk (Poor)	BB+	(–5 +)	CCC+/CCC	(–5 to –6 +)
4. Debt Issued by Both Insurance Company and Holding Company				
Insurance Operating Company				
IFS Rating (Good)	A+	—	BB+	—
IDR of Op Co	A	(–1)	BB	(–1)
Unsecured Senior (Average)	A	0	BB	0
Subordinated Debt (Below Average)	A–	(–1)	BB–	(–1)
Hybrid — Minimal Nonperformance Risk (Poor)	BBB+/BBB	(–2 or –3)	B+ to B–	(–2 to –4)
Hybrid — High Nonperformance Risk (Poor)	BB+	(–5 +)	CCC+/CCC	(–5 to –6+)
Holding Company				
IDR of Hold Co	A–	(–1)	B+	(–2)
Unsecured Senior (Below Average)	BBB+	(–2)	B	(–3)
Subordinated Debt (Poor)	BBB	(–3)	B–/CCC+	(–4 or –5)
Hybrid — Minimal Nonperformance Risk (Poor)	BBB/BBB–	(–3 or –4)	B– to CCC	(–4 to –6)
Hybrid — High Nonperformance Risk (Poor)	BB	(–6 +)	CCC–/CC	(–7 to –8+)

IFS – Insurer Financial Strength. IDR – Issuer Default Rating. IG – Investment grade. Non-IG – Non-investment grade.
Continued on next page.
Source: Fitch Ratings.

Figure VI-10: Notching Examples (Continued)

II. Group Solvency Environment:

	IG Case		Non-IG Case	
1. No Debt Issued				
Insurance Operating Company				
IFS Rating (Good)	A+	—	BB+	—
IDR of Op Co	A	(–1)	BB	(–1)
2. Debt Issued by Holding Company				
Insurance Operating Company				
IFS Rating (Good)	A+	—	BB+	—
IDR of Op Co	A	(–1)	BB	(–1)
Holding Company				
IDR of Hold Co	A	(0)	BB–	(–1)
Unsecured Senior (Below Average)	A–	(–1)	B+	(–2)
Subordinated Debt (Poor)	BBB+	(–2)	B/B–	(–3 to –4)
Hybrid — Minimal Nonperformance Risk (Poor)	BBB+/BBB	(–2 to –3)	B to CCC+	(–3 to –5)
Hybrid — High Nonperformance Risk (Poor)	BB+	(–5 +)	CCC/CCC–	(–6 to –7+)
3. Debt Issued by Insurance Company				
Insurance Operating Company				
IFS Rating (Good)	A+	—	BB+	—
IDR of Op Co	A	(–1)	BB	(–1)
Unsecured Senior (Average)	A	0	BB	0
Subordinated Debt (Below Average)	A–	(–1)	BB–	(–1)
Hybrid — Minimal Nonperformance Risk (Poor)	BBB+/BBB	(–2 to –3)	B+ to B–	(–2 to –4)
Hybrid — High Nonperformance Risk (Poor)	BB+	(–5 +)	CCC+/CCC	(–5 to –6+)
4. Debt Issued by Both Insurance Company and Holding Company				
Insurance Operating Company				
IFS Rating (Good)	A+	—	BB+	—
IDR of Op Co	A	(–1)	BB	(–1)
Unsecured Senior (Average)	A	0	BB	0
Subordinated Debt (Below Average)	A–	(–1)	BB–	(–1)
Hybrid — Minimal Nonperformance Risk (Poor)	BBB+/BBB	(–2 or –3)	B+ to B–	(–2 to –4)
Hybrid — High Nonperformance Risk (Poor)	BB+	(–5 +)	CCC+/CCC	(–5 to –6+)
Holding Company				
IDR of Hold Co	A	(0)	BB–	(–1)
Unsecured Senior (Below Average)	A–	(–1)	B+	(–2)
Subordinated Debt (Poor)	BBB+	(–2)	B/B–	(–3 or –4)
Hybrid — Minimal Nonperformance Risk (Poor)	BBB+/BBB	(–2 or –3)	B to CCC+	(–3 to –5)
Hybrid — High Nonperformance Risk (Poor)	BB+	(–5 +)	CCC/CCC–	(–6 to –7+)

IFS – Insurer Financial Strength. IDR – Issuer Default Rating. IG – Investment grade. Non-IG – Non-investment grade.
Source: Fitch Ratings.

VII. Start-Up and Runoff Organizations

Start-Up and Runoff Organizations

Start-Up Company Considerations

In some cases, Fitch assigns IFS ratings or IDRs to insurance companies that are commencing operations or have a limited track record. Reflecting this risk element:

- Fitch rarely assigns start-up IFS ratings or IDRs, before taking into account the impact of any parent or group support, above the ‘BBB’ category.
- Many well-capitalized, well-run institutions with a limited history would be rated in the ‘BBB’ category for IFS or IDR.

In the cases of start-up organizations or those with a limited operating history, the agency assesses management’s track record, data, and experience, as well as placing greater weight on a critical assessment of forward-looking forecasts and budgets.

Corporate governance and ownership factors also play a more important role in the assessment of a start-up. This includes the alignment of incentives between the management and owners but also the owners’ identity, resources, investment style, exit strategy, and investment track record. Owners that have limited resources, an aggressive exit strategy, and high return expectations are usually less favorable for the insurer’s rating.

In rating such firms, the degree of judgment that is required in the rating process is increased and the rating is heavily affected by Fitch’s perception of management’s ability to reach its financial projections.

The agency generally views a limited track record for a firm as elevating the risk profile relative to peers, reflecting the challenges of attracting quality new business as well as potential operational difficulties. These challenges are often less significant and long-lasting for industry segments where business is short-tailed, customers are more opportunistic, and significant data is publicly available to help quantify and assess risks (e.g. catastrophe reinsurers.)

Where Fitch assigns a rating to an insurer based on its stand-alone profile and with less than five years of audited information available, this use of a limited financial history will be disclosed. The table below shows the impact for life and non-life insurers in developed markets.

Rating constraints for a limited track record are lessened as the company matures, and in most (but not all) cases they are no longer applied after five years. The degree of constraint may be reduced incrementally as a track record is built.

Fitch also may potentially view the following entities as start-ups on a case by case basis: insurer spinoffs with a longer operating history; new entities that source business from established companies; or when a new owner buys an existing company and makes significant management/strategic changes.

Figure VII-1: Ratings Range Based on Years of Operations

Runoff Company Considerations

In some cases, Fitch assigns ratings to insurance companies that have ceased operations and are voluntarily running off their books of business. The analysis employed by Fitch for such entities would include review of the key rating factors discussed in *Section I* but with recognition that the lack of an ongoing franchise carries additional risks. These would include an inability to grow new profitable businesses to offset losses on existing business should losses develop, as well as challenges in raising capital if needed, among others.

- Typically, to reflect these characteristics, IFS ratings and IDRs of runoff organizations would not exceed the 'BBB' category.
- There could be limited exceptions to this, but such exceptions would be expected to be infrequent.

The concepts just discussed do not apply to active companies whose business model involves buying and then running off blocks of business from third-party insurers. Fitch considers such companies to be active insurance organizations.

VIII. Short-Term Ratings

Short-Term Ratings

The time horizon of short-term ratings is typically defined nominally as 13 months, reflecting the 397-day maximum period associated with most types of short-term debt.

The level of a short-term rating is primarily derived from the issuer's long-term ratings, using the linkages outlined in the table below. These linkages reflect the inherent importance of liquidity and near-term concerns within Fitch's long-term ratings assessments.

For long-term ratings of 'A+', 'A–', and 'BBB', one of two short-term ratings can be applied. The lower of the two short-term ratings will be used unless the issuer demonstrates exceptional liquidity characteristics that are expected to endure.

Figure VIII-1: Relationship Between Long-Term and Short-Term Ratings

Long-Term	Short-Term
AAA	F1+
AA+	F1+
AA	F1+
AA–	F1+
A+	F1 or F1+
A	F1
A–	F2 or F1
BBB+	F2
BBB	F3 or F2
BBB-	F3
BB+ to B–	B
CCC to C	C
RD/D	RD/D

Debt Issue Ratings

Short-term debt issue ratings of investment-grade issuers, such as commercial paper, typically do not consider recovery, and thus only reflect default risk. Accordingly, debt issue ratings may be based on linkages to the long-term IDR of the issuer and not the unsecured senior debt rating.

Short-Term IFS Ratings

While most debt issue ratings are linked to the long-term IDR, the short-term IFS rating is linked to the long-term IFS rating.

Liquidity Backup

Due to refinancing risks, including cases of systemic market disruptions, Fitch's analysis of a commercial paper issuer's liquidity may consider backup. Fitch typically expects full (100%) backup of commercial paper and other short-term obligations, regardless of the credit rating of the issuer. While backup is most commonly provided in the form of committed bank lines, it may also be in the form of cash and high-quality marketable securities, parent-provided liquidity support or other clearly reliable alternatives.

The presence of a "material adverse change" (MAC) clause and covenants in bank provided back-up facilities complicates the analysis of liquidity, and the assessment of the sufficiency of the back-up facilities. These are addressed by the rating committee on a case by case basis.

Material deficiencies in back-up may result in downgrade of all long-term and short-term ratings, or in some cases an inability by Fitch to rate the short-term obligation.

Less Liquid Markets

The above guidelines are most applicable in the U.S. and euro zone markets, where there are large and well-developed markets for short-term debt. In other markets that are generally less liquid, rating committees may adjust these guidelines based on judgment related to unique circumstances.

IX. Recovery Analysis

A. Overview

B. Estimating the Value Available to Creditors

C. Estimate the Creditor Mass

D. Determine the Distribution of Value

A. Recovery Analysis — Overview

For issuers with IDRs at ‘B+’ and below, Fitch aspires to perform a tailored (also known as “bespoke”) recovery analysis for each group of obligations of the issuer. Fitch strives to assign RR to rated debt and hybrid issues at the same time as the IDR is lowered to ‘B+’ or lower.

As a bespoke analysis, Fitch’s specific recovery calculations may vary from case to case, reflecting different circumstances, expected asset recoveries, and levels of priority for creditors. However, Fitch uses the same broad methodology in each case with three steps:

- Estimate the value available to creditors.
- Estimate the creditor mass.
- Determine the distribution of value.

The procedures are used to approximate the value that may be available to creditors in the event of a default. This is then allocated to the various creditor classes in accordance with their expected priority ranking. It is noteworthy that estimating the value of an insurance enterprise often involves a high degree of judgment. In addition, the allocation of this value to various creditor classes can involve significant uncertainty, especially in emerging markets or when considering multinational insurance groups.

In select situations, Fitch may determine that at the time an IDR is lowered it cannot assign a RR. This may be due to Fitch’s belief that it does not possess the necessary information to conduct a robust recovery analysis, or that it has not had sufficient opportunity to adequately study the information available to make a meaningful determination of the RRs.

In these cases, Fitch may move without delay to lower the IDR to the appropriate level and may communicate when it expects to assign RRs to the rated securities of the issuer. In such circumstances, Fitch may place the related issue ratings on Rating Watch until RRs can be determined.

Ultimately, if Fitch determines that a robust bespoke recovery analysis cannot be performed, Fitch may not assign a RR. Instead, the agency may either: 1) use a baseline recovery assumption in notching the issue rating and cite an inability to arrive at a RR as a limitation of the issue rating, or 2) withdraw the issue rating.

B. Estimating the Value Available to Creditors

The value available to creditors can be established through several possible methods. For insurance companies, each of the steps may be heavily influenced by the role of the regulator.

- Capital protections or prevention of payments to the holding company could build a capital cushion at the regulated insurance company aiding its relative recovery.
- Further, the recovery value to policyholders is often best protected if the insurance operating entity can be sold reducing potential deterioration of asset values.
- Differences may also occur between life and non-life given the longer tenor of life liabilities.

The specific valuation technique used in determining RRs may be based on Fitch's view as to the most likely prospect for the entity post any default. Analysts may conduct both the liquidation and enterprise value approach, which, in theory, should have similar outcomes. If outcomes are substantially different, analysts and rating committees may consider such differences judgmentally.

Liquidation Approach

Given their regulated status, insurers do not tend to be liquidated in the same way as corporates. Instead they are generally wound up in accordance with legislation and regulation that differs by jurisdiction. For simplicity, all cases where the group or entity relies on its own existing assets to pay off creditors are referred to as a liquidation approach.

In valuing an insurer, Fitch may make various adjustments to the balance sheet to reflect:

- Projections of what the balance sheet may look like at the time of default.
- Realistic revaluations of assets, especially where some assets may be sold at "fire sale" prices.
- The loss of value of some assets at the time of winding up (e.g. goodwill, deferred tax assets).

Therefore, the agency makes various "haircuts" to assets that vary from case to case. For example, if an insurer's low IDR largely reflects a high level of risk associated with some of its investment assets, these investment assets may be haircut to reflect their possible value at the time of default. On the other hand, if the main ratings concern is that an increase in liabilities (i.e. claim/benefit reserves) would be the most likely reason for the insurer's default, and asset quality is high, asset haircuts are likely to be smaller.

The following additional six steps/guidelines are relevant when using a liquidation approach:

- Assets are subject to a haircut to reflect the fact that the assets may have a lower valuation at time of default and illiquid investments may need to be sold at a significant discount. Haircuts may vary by accounting practices within jurisdictions. Haircuts in jurisdictions with assets based on historic valuations may be more severe than those in marked-to-market jurisdictions. In addition, time to liquidation assumed may also be a material factor. Life insurance companies have long-dated tenors, which may allow greater leeway in liquidation versus a property/casualty company that may be pressured to meet payments much sooner.
- Cash held at the holding company may be assumed to be paid down into the operating company as a capital investment prior to default, if pressures are assumed to reside at the operating company level.

Figure IX-1: Asset Haircuts

Asset	Characteristics	Discount (%)
Cash — Operating Company	Low risk but position may deteriorate prior to default.	0–25
Cash — Non-Operating Holding Company	Holding company cash generally assumed to be used or downstreamed to operating company prior to default.	100
Government Securities	Low risk and liquid.	2–3
Reinsurance Recoverables	Variable quality and can be vulnerable to dispute risk or overstatement.	10–40
Corporate Debt Securities	Mainly low risk, but variable liquidity.	15–50
Structured Finance Securities	Wide range of quality, but limited liquidity.	15–100
Real Estate And Property	Illiquid and potentially volatile valuation.	20–60
Intragroup Receivables	Depends on credit quality of rest of group.	25–100
Equities	Variability in liquidity and volatility.	15–100
Amounts Due From Brokers/Policyholders	Amounts may be withheld.	50–70
Fixed Assets — Tangible	Illiquid and variable value.	15–50
Associates And Joint Ventures	Illiquid and variable value.	20–100
Intangible Assets	Illiquid and questionable value in distress.	70–100
Value of Business in Force	Illiquid and variable value.	40–100

Note: These ranges are provided for indicative purposes only. As a bespoke analysis, the agency may use other asset valuations where considered more appropriate.

- Deferred tax assets and other intangible assets may be written off. Exceptions to this may include future profitability expectations on a portion of the insurer's business despite a general default. Where profitability is anticipated on an existing book of business, a conservative portion of deferred acquisition costs (DAC)/intangibles may be included as an asset of the company.
- Any anticipated future profitability from the commutation of business may not be included as an asset of the company as such profits typically reflect the time value of money as well as own credit risk.
- Off-balance sheet assets such as guarantees may be added to investments.
- The cost of administration is captured by deducting an additional 2% of assets from total recoveries, although this may vary from country to country as appropriate.

As a bespoke analysis, the asset haircuts employed may vary according to circumstances. However, while not prescriptive, the haircuts in the table above are considered to be typical based on historic observations together with Fitch judgment.

Enterprise Valuation

In some cases, instead of, or in addition to, a liquidation analysis, the agency may make estimates as to the valuation of certain insurance operations as a whole. This would be especially true where the recovery analysis is being performed for a holding company with distinct subsidiaries that could be sold individually.

In making such enterprise valuations, Fitch may take account of the fact that a defaulted entity is liable to be a "forced" seller, and there may be some reputational, operational, financial, or other linkages that may affect the valuation.

- In determining the valuation of insurance operations to be sold, Fitch may consider quoted market prices where peers are available or else use proxies for valuation, such as multiples of earnings, book value, or where available, a percentage of published embedded values.

- The multiples used may vary from case to case but would commonly fall within the ranges in the table below.

Figure IX-2: Valuation Multiples — Illustrations

Valuation Method	Typical Multiples (x)
Price/Earnings Multiple	3.0–10.0
Book Value	0.8–1.1
Embedded Values	0.7–0.95

Note: These ranges are provided for illustrative purposes only. During certain periods of extreme market or economic conditions, reasonable multiples could fall outside of the above ranges. As a bespoke analysis, the agency may use other valuation methodologies where considered more appropriate. Where such other valuation methods above are employed, the multiples used may fall outside of these ranges.

The use of multiples may be influenced by local market conditions, regulatory conditions, and the availability of multiples from peers. In all cases, multiples are subject to a prudence principle that acts to limit the multiple at the time of peak valuations, which reflect the collapse in multiples at troughs.

Fitch may use relatively conservative valuation multiples when market valuations are at historical peaks. Similarly, when markets are so depressed or disrupted that they are essentially illiquid (for example, during the 2008 financial crisis), Fitch's recovery multiples may be higher than observed market multiples, if any are available. However, in all cases, Fitch will continue to be conservative in its assumptions.

C. Estimate the Creditor Mass

Fitch's general approach is to classify the creditors according to their seniority such that pari passu creditors are grouped together. Fitch may make adjustments to the creditor profile to reflect:

- Projected changes in the balance sheet prior to default.
- Accounting adjustments such as ensuring that liabilities reflect the amount owed rather than a fair value (that is written down to reflect the issuer's own credit risk).

Applying a "shock" to liabilities mirrors the effect of the haircutting of assets and reflects the fact that some creditor classes may be expected to expand prior to default.

For example, the agency may shock insurance liabilities to reflect that results may deteriorate either as part of the cause or as an effect of the default. Where an entity has a history of reserve deterioration or poor underwriting and the entity is considered most likely to default due to liability (as opposed to asset) difficulties, the agency may shock policyholder liabilities more than in other circumstances.

Typical categories and shocks used are shown in the table below.

Figure IX-3: Calculation of Creditor Mass

Priority	Balance sheet Category	Shock (% Increase)	Notes
1	Secured/Preferred Creditors	—	
	Unearned Premium Reserve	—	
	Provision For Outstanding Claims — Non-Life	5–20	Reflects reserve deterioration or poor performance prior to default
	Long-Term Health Insurance Reserves	0–10	Reflects reserve deterioration or poor performance prior to default
	Long-Term Life Reserves	0–10	Reflects reserve deterioration or poor performance prior to default
2	Policyholder Obligations		
	Due To Related Parties	—	
	Due To Reinsurers	—	
	Creditors and Accrued Charges	—	
	Senior Unsecured Debt	—	
	Bank Lines And Overdrafts	Variable	Reflects drawing down of committed bank lines prior to default
3	Unsecured Obligations	—	
4	Subordinated Debt	—	
5	Junior Subordinated Debt	—	

D. Determine the Distribution of Value

Having determined the value available to creditors and the approximate scale of creditors at each level of priority, Fitch typically assumes that this value is allocated to the various classes of creditor according to a strict legal waterfall.

- Only once the most senior creditor has received 100% recoveries would the next most senior creditor be allocated any value.
- The process continues until all available value has been distributed or all creditors have been paid in full.

In the case of groups, there can be several layers of entities with value potentially flowing up from one layer to the next (see the *Figure IX-4* below).

Once the estimated recoveries have been calculated, these are converted to Fitch's recovery bands. See the Fitch Recovery Rating Scale on the next page. These are then used to determine the RR, and then the issue rating, based on notching guidelines discussed in *Section VI*. Fitch may measure recoveries on an ultimate recovery basis, therefore it does not typically discount recoveries to reach a present value basis.

In certain markets, "soft caps" are used that state a typical maximum recovery value that Fitch may assign in certain jurisdictions that are debtor-friendly and/or have weak enforceability of creditor's rights. Given that IDRs of 'B+' or below are most common in emerging markets, "soft caps" on recoveries can potentially be significant. Where a soft cap applies, this may be applied only after the full distribution of value has taken place and may reduce the recovery rating applicable to certain instruments. For more information, see *Country-Specific Treatment of Recovery Ratings* at www.fitchratings.com.

Figure IX-4: Recovery Analysis of Groups — Illustrative Example

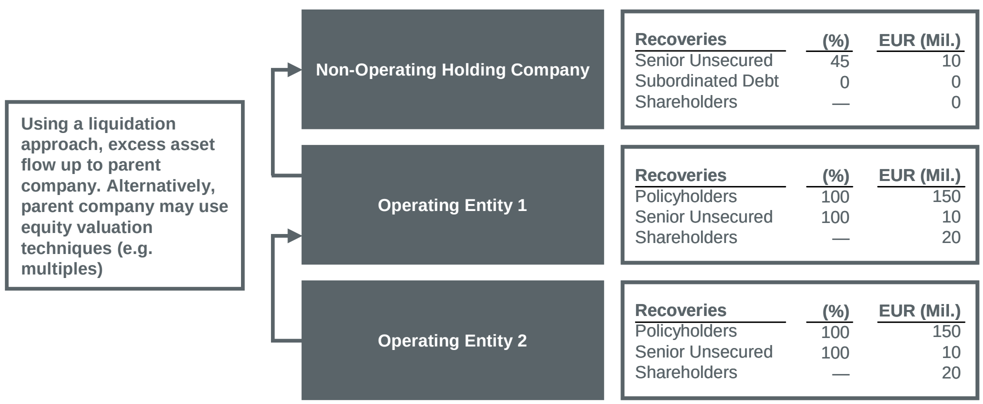


Figure IX-5: Fitch Recovery Rating Scale

The recovery scale is based on the expected relative recovery characteristics of an obligation upon curing of a default, emergence from insolvency, or following the liquidation or termination of the obligor or its associated collateral. As such, it is an ordinal scale and does not attempt to precisely predict a given level of recovery. While recovery ratings (RRs) are in relative terms, Fitch does employ the following recovery bands in assigning RRs.

Recovery Rating	Definition	Recovery Band (%)
RR1	Outstanding recovery prospects given default	91–100
RR2	Superior recovery prospects given default	71–90
RR3	Good recovery prospects given default	51–70
RR4	Average recovery prospects given default	31–50
RR5	Below-average recovery prospects given default	11–30
RR6	Poor recovery prospects given default	0–10

Note: Issue and obligation ratings will be notched up or down from the Issuer Default Rating (IDR) based on their RR. It is generally assumed that all of the obligations of a given entity share the same default risk, as reflected in the entity's IDR.

X. Captive Insurance Companies

What Is a Captive Insurer?

For purposes of this report, a captive insurance company is defined as an insurance company established by a sponsoring organization to exclusively (or primarily) sell insurance or reinsurance to the sponsoring organization. Captives have historically been used by sponsoring organizations that desire to self-insure certain risks, but for which they are obligated to have insurance in place (such as workers' compensation insurance in the U.S.). As a licensed and regulated entity, the captive meets the legal requirement for provision of insurance. A captive will also typically cede some risks that the sponsor would view as undesirable for self-insurance, such as large losses from catastrophic events. Thus, captives typically have active reinsurance programs.

Rating Captive Insurance Companies

In this section Fitch discusses the core principles supporting the ratings of captive insurance companies. These apply to ratings of both:

- Captives owned by single (or a limited number of) industrial or other non-insurance organizations.
- Captives owned by insurance or reinsurance organizations.

In contrast, certain industry captives that have a significant number of owners/sponsors may be rated as traditional insurance companies, though any unique aspects of the ownership profile may be considered. Further, in cases where a captive is part of a legal structure where its capital is effectively ring-fenced from the owner/sponsor, Fitch may apply its insurance-linked securities rating criteria, see *Related Criteria* on page 1.

All other forms of captives may be rated as discussed in this section. Captive ratings can include IFS ratings, IDRs, and/or debt issue ratings, including ratings of bank lines and letters of credit.

As discussed in more detail later, in some cases, Fitch's willingness to assign a private rating or assessment on a captive, and the methodology employed, may be influenced by the intended use of the rating/assessment.

General Ratings Concepts

The rating of any captive insurance company is based on application of the "Key Credit Factors" outlined in *Section I*, together with application of general concepts outlined in *Section V* on "Group Ratings Methodology." However, given the narrow business focus of a captive, and extraordinary linkages to a captive of its parent/sponsor(s), application of certain rating principles may differ for a captive compared with a traditional insurance company.

In particular:

- Captives' ratings may be capped at the rating of the parent/sponsor.
- Parameters for defining a captive as "Core" differ in some respects from those in *Section V* for traditional insurance groups.
- Assessments of capital adequacy may place greater emphasis on net retained risk limits relative to capital and ceded reinsurance programs.
- Capital of a captive may include material use of letters of credit (LOC), which requires additional analysis as to the implications.
- The amount of nonparent/sponsor business written may cause Fitch to rate the captive as a traditional insurer, as opposed to a captive, if significant.

Assessing a Captive's Financial Strength

The following is additional detail on the unique aspects in the ratings analysis of a captive insurance company.

Parent/Sponsor Ratings "Caps"

Generally, the rating of a parent company places a cap on the rating of a captive insurance company. For a non-insurance company parent, the IDR typically serves as the cap for the IDR of the captive. The IFS rating of the captive is also likely to be capped at the IDR of the parent, resulting in the potential compression of the captive's ratings relative to standard notching applied by Fitch for traditional insurance companies. This potential compression of ratings is based on the expectation that insurance creditors of the captive would not recover more than senior creditors of the parent in the case of default due to the very strong linkages between a captive and its parent.

In unusual circumstances, where the sponsor is weak and the captive maintains strongly protected and high levels of capital, Fitch may choose to conduct a specific recovery analysis, which may result in the captive IFS rating set at a level above the sponsor's IDR. In these situations, a rating uplift of the captive IFS over the sponsor IDR is likely to be no greater than one rating notch (i.e. from 'BBB' to 'BBB+').

For an insurance company parent, the IFS rating of the captive is typically capped at the IFS rating of the parent.

In general, reasons for the use of the parent ratings "cap" are as follows:

- The captive would not exist without the sponsorship of the parent.
- The captive's financial flexibility, including access to capital to fund growth or replenish for losses, is derived exclusively from that of the parent.
- The captive's book of business and retention strategy is derived from the parent and the parent's risk appetite.
- Essentially all decisions affecting the financial profile of the captive are set by, or can be heavily influenced by, the parent.
- The parent typically sets upstream dividend policy of the captive (though this may be subject to restrictions of the captive's regulator, which can vary greatly by jurisdiction).

For a captive to be rated higher than the parent, the captive would need to be capitalized at a level significantly higher than that implied by the parent's rating and other aspects of the financial profile, as implied by a stand-alone assessment, would need to be supportive of a higher rating. In addition, the concepts discussed in *Section V* under *Rating Above the Group Assessment* would need to be in place with respect the parent-captive relationship. Fitch believes it would be extremely rare for such conditions to be met in the case of a captive.

While the parent rating typically places a cap on the captive rating in all but the most extraordinary circumstances, a captive may not achieve the parent rating unless it is considered "Core" to the parent. If not Core, the captive may be rated at the lower of the parent rating or its stand-alone assessment.

Definition of a Core Captive

Because of the unique nature of a captive's business, the parameters in defining a captive as being Core differ from those discussed in *Section V*.

- The mission and strategic goals of the captive must be intricately tied to the parent's risk management and risk financing strategy.
- The captive must serve a clear economic purposes in allowing the parent to manage risk and/or costs in a more efficient or effective manner than via use of third-party insurance or reinsurance. This can include providing consistent capacity.
- A vast majority of the captive's business is derived from that of the parent and the parent does not view the captive as a profit center or line of business. Cases of a captive providing insurance to customers of the parent would be viewed as nonparent business.
- The parent has made a reasonable financial commitment to the captive and appears supportive of its ongoing solvency and viability.

Net Retained Limits and Ceded Reinsurance

While Fitch would typically assess the capital adequacy ratios of a captive using the tools discussed in *Section I*, Fitch may also look closely at net retentions of the captive relative to capital, both on a per risk basis and in aggregate.

Since a key role of a captive is to shape risk, an appropriate balance between net retentions and purchases of ceded reinsurance (or other forms of risk mitigation) play a key role in shaping the risk profile and capital adequacy of a captive. Unusually large retentions may show lack of commitment on the part of the sponsor or a breach in overall risk management.

Because reinsurance and other risk mitigation programs can play such a critical role in the assessment of a captive, Fitch may look at such programs in more detail than it would for a traditional insurance or reinsurance company. In addition, any gaps in placement of a program may have a more pronounced impact on a captive's rating than that of a traditional insurer.

Capital "scores" for a captive that come out at levels lower than the parent's rating may cause Fitch to rate even a Core captive lower than that of the parent. Unusually high net retentions could be one area that may cause Fitch to determine the capital assessment is potentially inconsistent with assignment of the parent rating.

Capital — Letters of Credit

Fitch notes that, at times, a portion of a captive's capital may be provided in the form of a bank LOC. In some cases, the right to draw on the LOC is given to the regulator of the captive, who views the LOC as a way to obtain liquidity to fund claims in periods of stress when management or the parent may prove uncooperative. In other cases, LOCs may be arranged and/or guaranteed by a parent to limit its equity investment and to manage its cost of capital.

In either case, the rating of the bank providing the LOC may take on a heightened role in the rating of captive, especially if performance by the bank on the LOC under stress is critical to the solvency and viability of the captive. In such a case, the bank's rating may cap the rating of the captive, but would never "uplift" the rating as would a financial guaranty (unless the LOC was designed to mimic a financial guaranty).

Because the circumstances surrounding use of LOCs as a form of capital can be so varied, these may be considered by a rating committee on a case by case basis.

Nonparent/Sponsor Business

As noted, if the captive's business includes more than a very small amount of third-party business (i.e. typically under 20%), Fitch may rate the captive more as a traditional insurer and would be less likely to uplift the captive rating to that of the parent/sponsor. Fitch may consider unusual circumstances when a larger portion of third-party business may be appropriate on a case by case basis.

Captives of Insurance and Reinsurance Companies

In recent years, Fitch has noted that life insurance companies have been forming captive insurers as vehicles for capital financing transactions, such as transfer of XXX reserving risks in the U.S. In some cases, too, captives serve as defacto special-purpose vehicles (SPV) in insurance-linked securitizations (ILS).

In these cases, the captive may act as a reinsurer of a specific book of business or risk class, and then, in turn, transfer the risk to third parties, be it debt investors or banks/other counterparties.

When a captive acts as a SPV in an ILS transaction, its obligations may be rated as a structured finance obligation under Fitch criteria governing ILS entitled "Insurance-Linked Securitizations" that is listed on page 1 of this report.

In cases when the captive is not deemed a structured finance SPV, the captive rating methodology discussed in this section may apply.

Captive Private Ratings — Special Considerations

In certain cases, mainly in the case of insurance company-sponsored captives as just described, Fitch may be asked to provide a private rating or assessment on a captive by a bank or other counterparty to the captive. Often, the private rating/assessment is used by the bank or counterparty to help it judge how much capital to hold against its counterparty risks to the captive. In some cases, these private ratings or assessments may not reflect all aspects of Fitch's methodology due to the intended use of the rating or assessment.

For example, Fitch notes certain cases in which a bank LOC is used to guaranty performance of a captive for its obligations due its parent insurance company for adverse mortality experience under a XXX reserve financing. In these cases, the bank is bearing the mortality risk and risk the captive would otherwise fail. The bank may seek a private rating on the LOC facility to judge the risk of a draw for purposes of its capital requirements under bank regulations (i.e. Basel 3).

In such cases, Fitch's goal would be to provide a rating that best matches the risks specifically assumed by the bank or counterparty. In certain instances, as in the example just discussed, this may be a stand-alone rating of the captive that does not reflect uplift due to parent support. Whenever Fitch provides a rating that does not consider all of the factors outlined in this section of the criteria report, Fitch will clearly disclose these limitations in the letter that supports the private rating.

XI. Additional Considerations

A. Types of Insurance Ratings

B. Information Supporting Ratings/Criteria

C. Variations from Criteria

D. Limitations

A. Types of Insurance Ratings

It is important to put in context the types of ratings that can be assigned to insurance organizations. More complete details of Fitch's issuer and issue ratings are also provided in the document "Definitions of Ratings and Other Forms of Opinion." This document, as well as a description of Fitch's various rating scales and rating definitions, can be found at www.fitchratings.com.

Insurer Financial Strength Ratings

Unique to the insurance industry is the IFS rating, which is an issue rating assigned to the insurance company's policyholder obligations. This rating provides an indication of an insurer's capacity to pay its insurance claim and benefit obligations. It also serves as the initial "anchor rating" in the notching process.

The IFS rating does not encompass policyholder obligations residing in separate accounts, unit-linked products, or segregated funds for which the policyholder bears investment or other risks. However, any guarantees provided to the policyholder with respect to such obligations are included in the IFS rating.

In addition to the more customary long-term IFS rating, in some cases Fitch may also assign a short-term IFS rating to policyholder obligations with a less than one year contractual duration, such as short-term funding agreements (see *Section VIII* for additional discussion of short-term rating considerations*)*.

Issuer Default Ratings

Consistent with other Fitch corporate-finance sectors, insurance organizations are assigned IDRs. The IDR is a rating assigned to the company itself and it provides an indication of default or failure risk. The IDR is notched from the IFS rating, and then the IDR serves as the anchor for subsequent notching.

In the insurance sector, the IDR typically is only published in cases in which the entity is an actual or prospective debt issuer. Thus, IDRs are not typically published if the only other rating is the IFS rating.

IDRs can be issued on both the long-term and short-term rating scales.

Debt and Hybrid Security Ratings (Long Term and Short Term)

Consistent with other Fitch Corporate Finance sectors, within insurance issue ratings are assigned to various forms of long and short-term debt and hybrid securities. Such issue ratings are assigned to the security itself.

Debt issue ratings reflect both the default risk of the issuer as reflected in its IDR, as well as the expected recovery in the event of default (also known as loss given default). Accordingly, debt issue ratings are established by notching up or down from the IDR based on recovery assumptions. Hybrid security ratings are similarly notched up or down from the IDR based on expected recoveries, but also can consider additional risks unique to the hybrid's features, such as risk of deferral in advance of default.

Also, it should be noted that as a form of issue rating, IFS ratings are also established by notching from the IDR based on assumptions made with respect recoveries on policyholder obligations. Such recovery assumptions are heavily influenced by assumptions made by Fitch with respect to the insurer's regulatory environment.

See *Section V* for a more detailed discussion of notching methodology.

Recovery Ratings

Consistent with other Fitch Corporate Finance sectors, Fitch may assign a specific recovery rating (RR) to a debt or hybrid security that has an issue rating of 'B+' or below. (For issue ratings above 'B+', the notching exercise uses baseline recovery assumptions, which can be found in *Section V*).

See *Section IX* for a discussion of the analysis supporting development of RRs.

RRs are subject to a soft cap reflecting the creditor-friendliness of different jurisdictions and enforceability of rights in the event of default. See the report *Country-Specific Treatment of Recovery Ratings* at www.fitchratings.com for further details.

Local and Foreign Currency Ratings

Theoretically, in emerging markets, any of the above noted credit ratings (IFS, IDR, debt issue) can be provided on a local currency (LC) or foreign currency (FC) basis. However, Fitch does not frequently publish separate LC and FC ratings for insurance companies, given that transfer and convertibility risk are rarely a defining factor to an insurer's rating. However, separate LC and FC ratings may be assigned where considered appropriate.

Further details on potential "caps" applied to FC and LC ratings are given in *Section I-B*.

National Ratings

In emerging markets, Fitch can also assign credit ratings (IFS, Long-Term, debt issue) on one of its national scales. National ratings provide a relative measure of creditworthiness for rated entities only within the country concerned. Under this rating scale, an 'AAA' Long-Term National Rating may be assigned to the lowest relative risk within that country, which will be the sovereign state in most but not all cases.

In insurance, National IFS ratings are common in Latin America and other emerging markets.

National scale ratings include a suffix denoting the country whose rating scale is being applied. Additional information on national ratings is available at www.fitchratings.com.

B. Information Supporting Ratings/Criteria

Fitch's analysis and rating decisions are based on relevant information available to its analysts. The sources of this information are the issuer and the public domain. This includes relevant publicly available information on the issuer, such as audited and unaudited (e.g. interim) financial statements and regulatory filings.

The rating process also can incorporate information provided by other third-party sources. If this information is a key basis for the rating, the specific rating action will disclose the relevant source.

Most publicly traded companies would be deemed to provide sufficient and robust information to meet Fitch's minimum guidelines. In addition, in many jurisdictions, regulatory data is generally sufficient and robust and meets Fitch's minimum information guidelines.

Whenever Fitch believes information is neither sufficient nor robust, it will not assign a new rating or it will take steps to withdraw an existing rating. This determination is made solely by Fitch. This could occur in cases where Fitch uses only public information, as well as cases when Fitch also receives nonpublic information from the issuer.

Nonpublic Information

Although Fitch may receive nonpublic information from rated issuers, the extent and usefulness of such nonpublic information can vary widely from issuer to issuer, as well as over time for a given issuer. Thus, while such information can be informative, Fitch generally does not rely on nonpublic information when rating insurance organizations.

Further, the agency recognizes that publicly available information is often the only data available for investors, brokers, insurance policyholders, and other stakeholders with an interest in the creditworthiness of insurance organizations.

However, some exceptions do exist. For example, for mortgage insurers, Fitch regards detailed exposure data as important for its analysis of these organizations. These data are provided by the rated organizations, remain relevant for a period of time, and are unaudited. The period for which this exposure data remains sufficient depends on specific circumstances, but would rarely exceed 18 months from date of provision.

Evaluating Sufficiency of Information

Whenever Fitch assigns or updates a rating, it judges if information in support of the ratings analysis is sufficient. Generally, Fitch may consider the following:

- Information is considered sufficient if in the agency's view it is possible to evaluate the key risks that affect the company, as defined by these criteria.
- For a given rated entity, the agency may take into account the extent of information that is typically available for other rated companies.
- Fitch may employ reasonable estimations to help fill modest information gaps.

More specifically, the following guidelines are used:

- Typically, financial information should be available covering the last five years of operation, or from the start of business operations, if this is shorter.
- Unique circumstances may exist (e.g. involving mergers and acquisitions) that would allow Fitch to rate insurance organizations using less than five years of data.
- This is evaluated on a case by case basis.

In some cases, sector-specific criteria may set higher information requirements than those discussed in these master criteria.

Evaluating the Robustness of Information

Information is considered robust when the rating committee finds the data sufficiently informative and reliable relative to its materiality to the ratings analysis. The following also applies:

- Although Fitch places reliance on the work of auditors in its review of financial statements, Fitch may also make use of other experts where considered reliable.
- Examples include actuarial consultants, risk modeling agencies, and legal advisers, among others.
- Fitch also frequently makes use of a variety of third-party information sources as well as data provided directly by the rated organization.

Fitch applies a “reasonable investigations” standard to the information provided through these channels.

Selection and Adjustments to Information

In completing its rating analysis, Fitch often has various forms of information available that overlap. For example, Fitch may review consolidated financial statements of insurance groups, individual statements of specific insurance companies, parent-only holding company statements, and/or consolidating financial statements.

- The extent to which each of these types of financial statements is relevant varies according to circumstances.
- Not all of these types of financial statements are available from all rated entities and when that is the case, Fitch reviews the best available information.
- Different accounting rules or policies can affect an insurer’s results.
- Therefore, the agency may make adjustments to reported financial information to increase comparability or to better align with Fitch’s definitions.

Criteria Data Sources

The key rating assumptions for these criteria are informed by discussions with external parties — such as issuers, institutional owners, and regulators and governments — and Fitch’s analysis of financial and nonfinancial information — such as issuer financial statements and annual reports; bond documentation; and financial market, industry and economic data and history.

C. Variations from Criteria

Fitch's criteria are designed to be used in conjunction with experienced analytical judgment exercised through a committee process. The combination of transparent criteria, analytical judgment applied on a transaction by transaction or issuer by issuer basis, and full disclosure via rating commentary strengthens Fitch's rating process while assisting market participants in understanding the analysis behind our ratings.

A rating committee may adjust the application of these criteria to reflect the risks of a specific transaction or entity. Such adjustments are called variations. All variations will be disclosed in the respective rating action commentaries, including their impact on the rating where appropriate.

A variation can be approved by a ratings committee where the risk, feature, or other factor relevant to the assignment of a rating and the methodology applied to it are both included within the scope of the criteria, but where the analysis described in the criteria requires modification to address factors specific to the particular transaction or entity.

D. Limitations

Ratings, including Rating Watches and Outlooks, assigned by Fitch are subject to the limitations specified in Fitch's Ratings Definitions and available at https://www.fitchratings.com/site/definitions.

In addition, ratings within the scope of these criteria are subject to the following specific limitations:

Unlike many nonfinancial ratings, insurance is an industry where the financial strength of the insurer is intrinsically linked to the value of the policy that is offered. Put more simply, a promise to pay claims or benefits by a very strong insurance company may be considered as being worth more than from a weaker firm and some policyholders may have minimum levels of financial strength that they consider adequate. One implication is that a slight weakening in financial strength can in some cases have a magnified effect, due to a loss of new business or the presence of explicit or implicit rating triggers. Given this characteristic of the insurance industry, the severity of ratings transition may be more pronounced for insurers relative to nonfinancial corporates, particularly in the case of downgrades around the cusp of market sensitivities.

Group rating methodologies were developed in a manner based mainly on general observations of management behavior, regulatory, or government behavior, and the historical performance of companies within insurance groups, among other considerations. The criteria were not derived from a statistical analysis of historical data. In some cases, use of group rating criteria can introduce heightened risk of sudden, multinotch downgrades related to events, such as merger, acquisition, and divestiture activities. For example, if Fitch materially raised the rating of a group member from its stand-alone level on the belief the group as a whole would provide ongoing support, but the group member is then sold, the rating of that group member could experience material ratings volatility as it migrates back to its stand-alone level.

Because Fitch's attribution of group support into ratings may be reduced as the overall financial strength of an organization declines, use of this criteria potentially introduces heightened ratings migration and variability risk as the group otherwise comes under financial pressure.

In many cases, Fitch does not maintain implied stand-alone assessments for members of a group whose rating benefits from group support. In such cases, use of this methodology could cause Fitch to withdraw the rating of the group member if a change in circumstances indicated the member should be rated on a stand-alone basis (for example, due to a divestiture) and Fitch was unable or unwilling to develop a stand-alone opinion in a timely manner. Accordingly, use of group rating criteria could lead to interruptions in Fitch's ability to maintain ratings coverage or provide an opinion to the marketplace in certain cases of organizational change.

In the context of notching and recovery methodology, *the Summary of Regulatory Classification Assumptions* in *Section VI* shows Fitch's current interpretation of the regulatory approach in each jurisdiction, as applicable to the notching exercise. Although Fitch uses its view for determining ratings, this information should not be relied on for any other purpose.