Reserving and The Standard & Poor's Rating Process

Reserving Seminar

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Reserving and The S&P Rating Process

The Standard & Poor's rating process

The importance of Reserving within S&P's analysis of Non-life insurers

Standard & Poor's going forward

The S&P Rating Process

What do financial markets need?

How does S&P help?

What an S&P rating is / is not

Selecting on the rating

- **The C&G RAMP**
- **Categories of analysis**
- **The final score**

What do financial markets need?

A reliable source of information

An understandable scale for comparison

A clearly described method of measurement

How does S&P help?

S&P:

- **Express their opinion of the relative likelihood that an issuer will or will not keep it's promise to repay it's debts**
- **Use a consistent set of grades (ratings) that reflect S&P's opinion**
- **Communicate what their ratings mean & how they were arrived at**

What an S&P rating is / is not

A credit rating is:

- **A forward-looking opinion of the relative creditworthiness**
- **A significant factor in pricing debt**

A credit rating is not:

- **A recommendation to buy, sell or hold any particular security**
- **A comment on the suitability of any individual element of that security, e.g. liquidity, to an investor**
- **An audit of the issuer's accounts or operations**

Select the rating – C&G RAMP

S&P assess the issuer's ability & willingness to meet their financial obligations

- Business Risk
  - Country Risk
  - Industry Characteristics
  - Company Position
  - Profitability / Peer Comparison
- Financial Risk
  - Accounting
  - Governance, Risk Tolerance, Financial Policy
  - Cash Flow Adequacy
  - Capital Structure
  - Liquidity / Short-term Factors

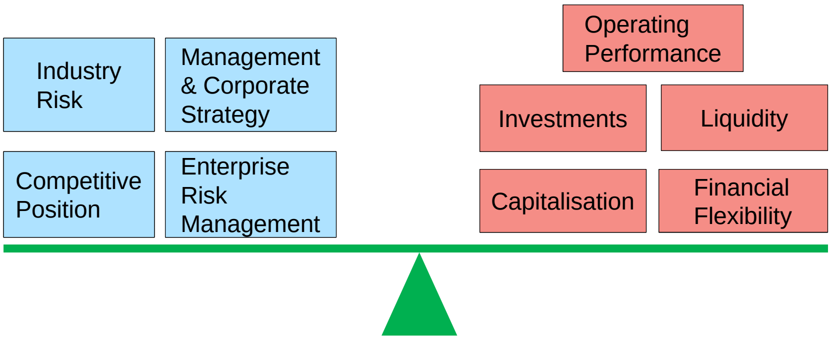
Select the rating – Heads of analysis

Insurers are evaluated using nine categories

- Business Risk
  - Industry Risk
  - Competitive Position
  - Management & Corporate Strategy
  - Enterprise Risk Management
- Financial Risk
  - Operating Performance
  - Investments
  - Liquidity
  - Capitalisation
  - Financial Flexibility

Select the rating – The Final Score

Balancing the risks = Corporate Credit Ratings



Reserving in the Rating Process

Where S&P's analysis of reserves fits within the final FSR

Outputs from the review process

What the review entails

How S&P decides which Insurers to review

Why S&P wants it's own view of Reserves

Does S&P incorporate other views?

Where Reserves Fit In

1. Industry Risk
2. Competitive Position
3. Management & Corporate Strategy
4. **Enterprise Risk Management**
5. **Operating Performance**
6. Investments
7. Liquidity
8. **Capitalisation**
    1. **Capital Adequacy**
    2. Reinsurance Ceded
    3. **Reserves**
    4. Quality of Capital
9. Financial Flexibility

Outputs From The Process

Ideally they want to split the surplus / deficit:

- **Total**
- **Class of business**
- **Year of Account**
- **Financial Year**

Reasonable range

Mean term

Uncertainty & qualitative comments

What The Review Entails

Use company data & reserving classes

May focus on certain classes &/or companies

Periodic reviews

Cycle-robust approaches

Standard methods

Who To Review

Are reserves important to the overall rating

Potential reserve deficit

Material reserve surplus claimed

Casualty writers & Reinsurers

Peer review

Where are we in the Reserving Cycle

Why Their Own View

Lessons from history

Consistent view

- Different levels of underlying prudence
- Levels of prudence may vary over time
- Release / strengthen at different times

Independent view

Extra insight

Does S&P Incorporate Other Views?

Consulting actuaries' reports

In-house actuaries reports

Actual v Expected

Standard & Poor's Going Forward

S&P's Expectations of the future

- **Flatter underwriting cycles**
- **Better control of the underwriting & reserving processes**

Update to S&P's Insurance rating criteria

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