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 its promise to repay its 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

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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

Regulatory Information

The information in this presentation is based on our understanding of current taxation law, proposed legislation and HM Revenue & Customs practice, which may be subject to future variation.

This presentation is not intended to provide and must not be construed as regulated investment advice. Returns are not guaranteed and the value of investments may go down as well as up.

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