

# Insurance Ratings: Process and Components

Presented by: A.M. Best

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# Outline



- Introduction to A.M. Best
- Ratings in Brazil
- The Latin American Market
- Rating Process
  - Timing
  - Contractual obligations

# Introduction to A.M. Best

# A.M. Best Overview



- Established in 1899 in the US, pioneered the concept of insurer financial strength ratings in 1906
- Provider of ratings, financial data and news relating to insurance industry
- Coverage of over 3,800 companies in approximately 86 countries
- Awarded Best Global Rating Agency at the Reactions Global Awards seven years running 2009 – 2015
- Only international rating agency focused on the insurance industry:
  - Methodologies are specific to the insurance industry
  - Analysts are insurance specialists and **only** analyze insurance companies
  - Ability to provide specific indications as to the main drivers of a rating grounded in industry knowledge

# Registered Rating Agency



- Registered as a Nationally Recognized Statistical Rating Organization (NRSRO) with the U.S. Securities & Exchange Commission (ECAI comparable)
- Registered with international regulatory agencies in the following regions: Australia\*/New Zealand, European Union  
*\*An AFS Licensed Credit Rating Agency*
- Licensed corporation in Hong Kong and Singapore
- Licensed representative office in Dubai
- Authorized Credit Rating Agency in Brazil and Mexico

# A.M. Best Ratings in Brazil



## Current A.M. Best Financial Strength Ratings in Brazil: (As of March 1, 2016)

093335	Allianz Global Corporate & Specialty Resseguros Brasil S.A.	FSR: A
092459	Austral Resseguradora S.A.	FSR: B++
093522	BTG Pactual Resseguradora S.A.	FSR: B++
085590	IRB – Brasil Resseguros S.A.	FSR: A-
091509	J. Malucelli Resseguradora S.A.	FSR: A-
077762	J. Malucelli Seguradora S.A.	FSR: A-
092722	Terra Brasis Resseguros	FSR: B++



# A.M. Best and the Latin American Market



- A.M. Best has the strategic ambition to continue to expand its ratings franchise beyond core North American market
- A.M. Best is already playing a significant role in other emerging markets around the world (e.g. Middle East and Asia Pacific)
- Increasing interest in international ratings, particularly among Latin American companies expanding beyond their national markets
- Full rating office in Mexico

# The Growing Importance of Credit Quality



## **Growing awareness of credit quality**

Raised general level of awareness of credit quality across both consumer and commercial sectors

## **Focus on counterparty credit**

Sharpened focus on counterparty credit will continue to embed ratings in the financial fabric of the insurance and reinsurance sectors

## **Ratings becoming entrenched in legislation**

Ratings are increasingly becoming entrenched in insurance legislation around the world as regulatory regimes evolve and their sophistication increases



# Drivers of Ratings



- Enhanced insurance regulation, in particular more sophisticated solvency requirements.
- Need for statement of credibility (“passport”) when expanding regionally/internationally
- Entry to, and development of, credit sensitive market segments, e.g., reinsurance, large commercial business
- Due-diligence requirements on cross-border mergers, JVs, etc.
- Increasing involvement of major brokers
- Facilitates capital raising and reinsurance purchase
- Drive to improve corporate governance practices
- Desire for external endorsement of company’s (and CEO’s) progress
- Competitive advantage

# Rating Process - Timing



STEP 1: Rating Engagement & Contract *(Weeks 1-2)*



STEP 2: Pre-Rating Preparation *(Weeks 3-6)*



STEP 3: Rating Meeting *(Weeks 6-10)*



STEP 4: A.M. Best's Analysis *(Weeks 8-12)*



STEP 5: Rating Decision & Dissemination *(Weeks 11-14)*

# Rating Process – Obligations



## Cost\*

**\*Analysts are never privy to fee information. All discussions of that nature MUST be held with Business Development**

## Contracts

- Rating Services Agreement

# Rating Options & Outcomes



- Initial Rating Options
  - Accept the Rating
  - Decline the Rating
  - Appeal the Rating
- Accepted Ratings communicated and made public
  - President's letter
  - Press Release and publication
- Annual Rating Options
  - Withdraw from the process

# Things to remember.....



- **Only international rating agency SOLELY focused on the insurance industry**
  - Established in 1899, pioneered the concept of insurer financial strength ratings in 1906
  - Rating Criteria and Methodologies are specific to the insurance industry
  - Have assisted several countries in developing capital adequacy models
  - Many insurance regulators recognize A.M. Best ratings when requiring reinsurers to be rated
- **Sovereign ceilings DO NOT apply to ratings**
  - Company **CAN** be rated higher than the country's sovereign rating
  - Utilize a specific Country Risk Methodology. Country risk is only **ONE** factor in determining a rating outcome....not **THE** factor
- **Analysts are re/insurance specialists and ONLY analyze re/insurance companies**
  - Interactive process is both qualitative and quantitative – encourages and fosters open dialogue
- **Rating Coverage of approximately 3,800 companies in more than 86 countries.... And growing**
  - Allows for true global benchmarking



# Thank You!



## **Tina Bukow**

Assistant Vice President – Business Development

A.M. Best Company

Office: (908) 439-2200 ext. 5825 ♦ Mobile: (201) 274-6069

Tina.Bukow@ambest.com

## **Marcus Clementino, PhD**

Independent Consultant – Business Development

A.M. Best Company

Mobile: +55 (21) 9-7164-1100     Marcus.Clementino@ambest.com