

RatingsDirect®

How Standard & Poor's Intends To Finalize Its Insurance Criteria And Apply Them To Ratings

Primary Contact:

Dominic Crawley, London (44) 20-7176-3784; dominic_crawley@standardandpoors.com

Secondary Contacts:

Karin Clemens, Frankfurt (49) 69-33-999-193; karin_clemens@standardandpoors.com

Santiago Carniado, Mexico City (52) 55-5081-4413; santiago_carniado@standardandpoors.com

Bernard De Longevialle, Paris (33) 1-4420-7334; bernard_delongevialle@standardandpoors.com

Gregory S Gaskel, New York (1) 212-438-2787; greg_gaskel@standardandpoors.com

Connie Wong, Singapore (65) 6239-6353; connie_wong@standardandpoors.com

Table Of Contents

How We Expect The New Criteria To Affect Ratings

How We Will Implement The New Criteria

How We Will Release Our Ratings

Format Of Our Research Updates

Appeal Process

Related Criteria And Research

How Standard & Poor's Intends To Finalize Its Insurance Criteria And Apply Them To Ratings

Next week, Standard & Poor's Ratings Services intends to publish its revised criteria for rating insurance companies. Then, in late May, we will start applying the new criteria. We aim to complete our review of our interactively rated insurers and reinsurers by the end of July. We could delay this schedule if a material credit event occurs, particularly if the impact could take some time to assess. However, we would clearly communicate any change to our plans.

The criteria update is part of Standard & Poor's commitment to the market to enhance the transparency, rigor, and specificity of its criteria across sectors and asset classes. Our objective is to provide market constituents with greater insight into how we rate insurance companies and to enhance the global comparability of our ratings through a clear, coherent, and globally consistent criteria framework.

We started communicating on the process of updating our criteria when we published an advance notice of proposed criteria change in May 2012. We then published our proposed revised ratings framework for insurers in July 2012. During the subsequent three-month comment period, we interacted with several hundred market participants globally through seminars, teleconferences, and one-on-one meetings. We used these sessions to increase participants' awareness and understanding of the proposed changes and to solicit, evaluate, and incorporate feedback where appropriate. We summarized these interactions in a report published in October 2012, in which we outlined the most common areas that we had received feedback on. At the end of November 2012, we published a Credit FAQ that outlined our implementation plan for our revised criteria.

In this article, we provide information about the likely ratings impact of the criteria changes, provide a more detailed explanation of the implementation process, and comment on how we intend to apply the revised criteria to our current ratings. (Watch the related CreditMatters TV segment titled "Market Update – Insurance Revised Criteria To Be Published Next Week," dated April 30, 2013.)

How We Expect The New Criteria To Affect Ratings

We currently estimate that a significant majority of our ratings will not change. In cases where ratings change, it is most likely to be within one notch of the current ratings. Preliminary results suggest that positive rating actions will likely slightly outweigh negative rating actions. We expect only very few cases of rating changes by more than one notch. During our testing, we have not identified any sectors or regions where the distribution of ratings is likely to change significantly.

How We Will Implement The New Criteria

Our implementation schedule is as follows:

Week of May 6, 2013:

- We aim to publish our revised rating methodology for insurance companies. On the same day, we plan to publish our updated group rating methodology and our methodology to link short-term and long-term ratings to include insurers. In addition, we intend to publish an update that mainly consolidates our criteria for enterprise risk management (ERM).
- We will upload the criteria articles and updates, as well as explanatory materials, including interviews and training videos in different languages, onto our dedicated public Web site www.standardandpoors.com/insurancecriteria to allow for easy access and maximum transparency.
- Under Regulation (EC) No 1060/2009, following a change in credit rating methodology, credit rating agencies are required to immediately place all potentially affected credit ratings "under observation". In line with this regulatory requirement we will publish a list identifying all potentially affected credit ratings. We will reference on our public Web site the accompanying media release in all issuer landing pages under "Related Credit News And Research". Potentially affected credit ratings are all ratings on entities that are within the scope of the revised criteria regardless of the potential rating action (affirmation, upgrade, downgrade, CreditWatch placements).
- We will also publish our Insurance Industry Country Risk Assessments (IICRAs) for four global insurance sectors (property casualty reinsurance, life reinsurance, trade credit insurance, and marine protection and indemnity) and 94 industry-country combinations.

Late May through the end of July:

- From late May through the end of July, we intend to release the ratings, followed by individual research updates, on all interactively rated (re)insurance companies based on the revised methodologies. We aim to communicate all rating actions (affirmations, upgrades, downgrades, CreditWatch placements) by the end of July.
- We plan for our revised criteria to become effective on the date of publication. Our revised methodologies would apply if a credit event were to occur between the effective date of the revised criteria and the planned release of a rating. Examples of a credit event are a debt issue or a company announcement such as an acquisition.

July onwards:

- From July onwards, we plan to review our unsolicited ratings, which we will complete within six months of the effective date of our new insurance criteria.
- We plan to start publishing individual IICRA reports during July and intend to finalize this process by the end of 2013 at the latest.

How We Will Release Our Ratings

We have segmented insurance companies into groups and will publish ratings on insurers in these groups at the same time via a single "group media release." Each group media release will include a ratings list, showing the insurers included in that group, the new ratings under the revised criteria, and the former rating. The list will include holding companies and rated subsidiaries that are core and highly strategic and may also include strategically important or nonstrategic subsidiaries (as our criteria define these terms). For example, the first group media release will include the largest global reinsurers and global multiline insurers and a small number of large regionally focused insurers. Subsequent group media releases will be more regionally focused. We will communicate to the insurers which group they are in and when we expect to publish.

Following each group media release, we will publish individual research updates on each insurance company, including a list of ratings on affiliated entities, as well as the ratings by debt type--senior, subordinated, junior

subordinated, and equity hybrid instruments including preferred stock. We may publish a separate research update on subsidiaries that we consider strategically important, moderately strategic, or nonstrategic as their ratings are based more on their individual credit characteristics than on support from the group to which they belong.

Format Of Our Research Updates

The research updates will include our assessment of the following rating components of the relevant insurance company:

Anchor (as explained in the insurance RFC), comprising:

Business risk profile:

- The relevant IICRA,
- Competitive position, and

Financial risk profile:

- Capital and earnings,
- Risk position, and
- Financial flexibility.

The impact of modifiers (from ERM and management and our comparative and trend analysis),

The impact of caps such as from liquidity and sovereign stress tests, and

Group or government support, where relevant.

The research updates will be available at www.standardandpoors.com/insurancecriteria and on RatingsDirect. Ratings on specific issues will be available on RatingsDirect and www.standardandpoors.com following release.

Appeal Process

Consistent with our Appeals Policy, which is available on www.standardandpoors.com (see Form NRSRO Exhibit 2), we will consider an issuer's appeal against our rating decision. We do not expect to consider an issuer's appeal against CreditWatch placements, outlook revisions, or rating affirmations.

We are currently reviewing our ratings on the entire insurance sector. We are likely to place ratings on CreditWatch only in circumstances where we consider additional information is necessary for us to make a decision on a rating change. In the group media release, we will state which ratings have been placed on CreditWatch, and for these entities we will not publish an individual research update immediately and only do so once we have considered the additional information.

Appeals that result in Standard & Poor's placing its ratings on CreditWatch must, under our policies and criteria, focus on an issuer credit rating or specific debt rating. Consequently we cannot grant appeals on rating components such as the IICRA or indicative stand-alone credit profile.

Related Criteria And Research

All articles listed below are available on RatingsDirect.

- Credit FAQ: The How And When Of Standard & Poor's Proposed Insurance Criteria, Nov. 27, 2012
- Summary Of Submissions On Request For Comments: Insurers: Rating Methodology, Oct. 18, 2012
- Standard & Poor's Assigns Indicative Insurance Industry And Country Risk Assessments, July 16, 2012
- Request For Comment: Insurers: Rating Methodology, July 9, 2012
- Advance Notice Of Proposed Criteria Change: Insurance Companies, May 31, 2012
- Methodology: Short-Term/Long-Term Ratings Linkage Criteria For Corporate And Sovereign Issuers, May 15, 2012
- Group Rating Methodology And Assumptions, Nov. 9, 2011
- Use Of CreditWatch And Outlooks, Sept. 14, 2009

Copyright © 2013 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED, OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses, and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw, or suspend such acknowledgement at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal, or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain nonpublic information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com and www.globalcreditportal.com (subscription) and www.spcapitaliq.com (subscription) and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.