

A.M. BEST'S INTRODUCTION TO...
INSURANCE RATINGS
– AMÉRICA LATINA



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A.M. BEST AT A GLANCE

A.M. Best is a leading provider of ratings, news and financial data with a specialist focus on the world-wide insurance industry. Best's Credit Ratings are recognized as the benchmark for assessing the financial strength of insurance-related organizations and the credit quality of their obligations.

- Established in the U.S. in 1899 and pioneered the concept of financial strength ratings in 1906
- Worldwide headquarters in New Jersey, U.S.; regional centers in London (serving Europe, Middle East and Africa), Hong Kong (serving Asia Pacific and Oceania) and Mexico City (serving Latin America excluding Brazil). Representative office located in Dubai (serving MENA, South & Central Asia)
- Full-service global ratings capabilities
- Over 4,000 ratings in approximately 80 countries worldwide
- Extensive marketing and publishing capability to promote corporate ratings in local and international markets

Market Coverage

Insurance-related companies operating in various markets, including:

- Property/casualty (non-life) insurers
- Life insurers and annuity writers
- Health insurers
- Reinsurers
- Mutual insurers and Protection & Indemnity (P&I) clubs
- Takaful, Retakaful and co-operative insurers
- Lloyd's and its syndicates
- New company formations ("start-ups")
- Alternative risk transfer (ART) vehicles (including captives, pools and risk-retention groups)
- Catastrophe bond issuers and other Insurance-Linked Securitizations (ILS)

Competitive Strengths

- Only international rating agency dedicated to the insurance industry
- World's leading provider of insurer Financial Strength Ratings (FSRs) by company coverage
- Foremost rating coverage of the global reinsurance segment
- Leading position in international (re)insurance hubs—including comprehensive coverage of Lloyd's/London market, Bermuda, Zurich, Singapore
- Leading rating agency for ART and captives coverage
- Key rating agency used by global broker security teams
- Data and research covering 15,000 (re)insurance companies worldwide
- Largest and most comprehensive insurance database providing unique insights by segment and line of business
- Published rating methodology on all key insurance industry segments

Research & News

- Publishers of frequent specialized reports on global insurance industry issues, including sector, company and geographic regional analysis. Extensive global insurance news delivery and resources

Best's Credit Ratings: The Global Symbol of Financial Strength

RATING DEFINITIONS

Best's Financial Strength Ratings (FSRs) provide an opinion of an insurer's financial strength and ability to meet its ongoing insurance policy and contract obligations.

Best's Issuer Credit Ratings (ICRs) provide an opinion of an entity's ability to meet its ongoing senior financial obligations.

Best's Debt Ratings (DRs) provide an opinion as to the issuer's ability to meet its ongoing financial obligations to security holders when due.

A rating by A.M. Best is based on a comprehensive evaluation of an insurance company's financial strength, operating performance and business profile. A.M. Best also regularly publishes Impairment Studies, which evaluate rating performance over time.

BEST'S CREDIT RATING SCALES

Comparison of Financial Strength Rating (FSR) to Credit Market Scale

	FSR	ICR/DR	
Secure	A++	aaa aa+	Investment Grade
	A+	aa aa-	
	A	a+ a	
	A-	a-	
	B++	bbb+ bbb	
	B+	bbb-	

FSR = Financial Strength Rating
ICR = Issue Credit Rating
DR = Debt Rating

	FSR	ICR/DR		
Vulnerable	B	bb+ bb	Non-Investment Grade	
	B-	bb-		
	C++	b+ b		
	C+	b-		
	C	ccc+ ccc		
	C-	ccc- cc		
	D	c		
	E, F	rs		

E = Under regulatory supervision
F = In liquidation

BestMark
for Secure-Rated Insurers



The *BestMark* provides a recognizable visual symbol of an insurer's financial strength.

The value of a Best's Credit Rating is enhanced by market penetration. Best's Credit Ratings reach:

- More than 150,000 insurance industry professionals via A.M. Best's publications (*BestWeek*[®], *Best's Review*[®], *BestDay*[®], *BestWire*[®])
- Thousands of financial professionals worldwide via news vendors such as Reuters, Dow Jones and NewsEdge
- More than 1,400,000 professionals who have registered to gain access to Best's Credit Ratings online

Best's Credit Ratings and related financial information provide powerful tools for insurance decision making and market research for insurance agents, brokers, risk managers, bankers, insurance executives, policyholders and consumers.

Best's Credit Ratings: The Rating Process

An A.M. Best Market Development contact can help get you started by answering your questions and supplying the information necessary to make an informed decision about obtaining a Best's Credit Rating.

Upon determination of rating feasibility, a rating fee will be quoted. If accepted, a contract will be issued for signature, and when returned, and fee paid, the company will be assigned a rating analyst for the process to begin.

The Rating Process, Step by Step



Preliminary Discussions on Rating Objectives, Benefits and Scope of Analysis:

Discussions resulting in the company requesting to enter the rating process.

STEP 1: Rating Engagement and Contract:

Once a contract is signed and returned, the company is assigned a rating analyst, and the interactive rating process commences.

STEP 2: Compiling Information:

The rating assessment begins with the compilation of detailed public and proprietary financial information, including annual and quarterly financial statements, regulatory filings, certified actuarial and loss-reserve reports, investment detail and guidelines, reinsurance transactions, annual business plans and Best's Supplemental Rating Questionnaire.

STEP 3: Rating Management Meeting:

A.M. Best analysts meet with senior management and technical staff of the company that has applied for a rating (typically in the applicant company's head office).

STEP 4: A.M. Best's Analysis and Decision:

A rating recommendation is arrived at from the analysis and is taken to the Rating Committee for review and final determination.

STEP 5: Rating Communication and Dissemination:

- The rating is communicated to the rated entity.
- Once the rating is accepted by the rated entity, it is published immediately.

STEP 6: Monitoring Best's Credit Rating:

- The company is continuously monitored after the rating has been accepted.
- Open dialogue with A.M. Best's analytical team is fundamental for the ongoing maintenance of the company's rating, which will be formally reviewed, at least annually.

The typical duration of the rating process, from signed contracts to announcement of assigned ratings, is approximately three to four months.

Preparing for a Rating Meeting

Meeting with the management of a company is an integral part of A.M. Best's interactive rating process. Management meetings enable our rating analysts to review with the company factors that may affect its rating, including strategic goals, financial objectives and management practices.

It is during these interactive meetings that a company typically will share information that may be extremely sensitive or proprietary in nature. As a rating meeting is a critical component in A.M. Best's analytical process, adequate preparation by the company is imperative.

During rating meetings, companies should be prepared to provide and discuss, in detail, a broad range of information that can vary depending on the company and the industry in which they operate. The A.M. Best analyst typically provides a meeting agenda, outlining discussion topics that will guide the preparation effort.

Information Requirements

The primary source of the information is each company's annual and quarterly (if available) financial statements, as filed with the regulatory agency of the state, province or country in which the company is domiciled.

For a company new to the process, it is important to go through the history and business review issues, as well as the operating performance and overall capital position. For companies that are more familiar with the process, it is more important to focus on changes that have occurred since the last meeting. When there is a transaction pending or significant change in operating strategy and business plan, the focus of the meeting will be on such items.

A.M. Best expects all information submitted by a company to be accurate and complete. Furthermore, A.M. Best expects that any information relevant to the rating process will be submitted on a timely basis. Key executives should be present to discuss their areas of responsibility, including strategy, distribution, underwriting, reserving, investments, claims and overall financial results and projections. Depending on the size of the company, this can involve anywhere from one to six individuals.

Companies are encouraged to select a rating agency liaison that knows the company well and can respond to ongoing inquiries promptly. This is particularly important with significant events or transactions for which a company should provide advance notification, giving A.M. Best an opportunity to evaluate the effects of the transaction on the company's operations.

Information provided to A.M. Best by a company during a rating meeting may be extremely sensitive and/or proprietary. A.M. Best analysts are held to the highest standards of ethical and professional conduct in handling such information. A.M. Best has established policies and procedures to prevent unauthorized disclosure of confidential information and ratings prior to release. A.M. Best allows the use of confidential information only for purposes related to its rating activities or in accordance with any confidentiality agreements with the rated company.

Four Key Elements

Key elements to maintaining a mutually successful relationship with A.M. Best are:

1. Honest and open dialogue. Make sure that the person you select as your rating agency liaison knows your company well and can manage the relationship with A.M. Best in a positive and productive manner. Discussions concerning your company's positives and negatives should always be frank. Expect the same from A.M. Best.

2. Full and timely disclosure of company information and plans. This includes your company's vision, mission and strategy, as well as financial statements and projections, rationales and details of any transactions and sales results.
3. Full preparation for rating meetings. In general, you should be prepared to discuss, in detail, a broad range of information, including corporate overview, strategic plan, business lines, financial overview, investments, operations and technology. All information should be compiled and disseminated for review prior to the meeting. For any meeting to be successful, your key executives must be present and be prepared for the discussion.
4. Advance notification of significant transactions. Advance notification, including background information, of significant transactions should be provided. This gives A.M. Best analysts an opportunity to evaluate the effects of the transaction on your company's operations before reacting to public inquiries. All such information is considered proprietary and will be held in the strictest confidence by A.M. Best.

Non-Life Insurance

In order to make your rating meeting as complete and comprehensive as possible, A.M. Best's analytical team has prepared a sample non-life meeting agenda, detailing the areas that will be discussed in the initial interactive rating meeting.

Organization Structure

- Ownership and Membership Requirements
- Overview of Corporate Structure
- Management and Board of Directors

Corporate Governance

- Mission Statement
- Management's Perspective on Key Risks
- Risk Management Framework— Roles, Responsibilities & Oversight
- Board Involvement
- Systems/Internal Controls

Capital Structure

(Holding Company & Operating Company)

- Composition
- Capital Management Strategy
- Capital Adequacy
- Financial Leverage/Debt Service
- Financial Guarantees
- Sources & Uses (5 Years)
- Cash & Liquidity

Underwriting

- Product Offering(s)
- Geographic Footprint
- Limits Profile
- Base Rate & Overall Pricing Changes
- Retention
- Cycle Management Strategy
- Price Monitoring/Internal Controls
- Expansion Initiatives
- External Risk Factors

Marketing and Business Production

- Distribution Sources
- Diversification
- Business Strategies; Short and Long Term
- Growth Strategies and Targets

Claims and Loss Reserves

- Severity and Frequency Trends
- Claims Administration (Internal/Third Party)

- New Potential Claim Emergence
- Loss Reserves (Actuarial Report)—Carried vs. Indicated
- Management's Perspective of Reserve Adequacy
- Asbestos & Environmental Reserve Analysis (if Applicable)

Reinsurance/Pooling

- Pro-Rata/Per Risk Excess of Loss
- Catastrophic Reinsurance Programs
- Loss Portfolio Transfers/Aggregate Stop Loss (Contracts)
- Inter-Company Reinsurance/Pooling Agreements
- Credit Risk
- Net Retention

Investments

- Strategy & Guidelines
- Composition
- Credit Risk—Potential Bond Issuer Default
- Capital Market Risk—Equities/Interest Rates
- Investment Manager(s)

Financial Data

- Statutory Financial Statement(s)
- Consolidated GAAP Holding Company Financial Statement(s) (Audited if Available)
- Long-Range Pro-Forma Financials—Income Statement & Balance Sheet

Catastrophe Management Framework

- Natural & Man-Made Catastrophe Exposure Analysis
- Catastrophe Model(s) Used
- Probable Maximum Loss (PML)/Tail Risk Analysis
- Risk Aggregation/Mapping/Geocoding

Enterprise Risk Management*

- ERM Framework
- Risk Correlation
- Modeling Capabilities—Economic Capital/DFA/RAROC
- Risk Tolerance/Risk Management Objectives

Other

- Regulatory
- Legislative
- Judicial

*A.M. Best's expectation of a company's ERM capabilities will vary depending on an insurer's scope of operations, size and risk complexity. In some cases, a separate ERM meeting may be required.

Life Insurance

In order to make your rating experience as complete and comprehensive as possible, A.M. Best's analytical team has prepared a sample life meeting agenda, detailing the areas that will be discussed in the initial interactive rating meeting.

Overview

- Management Structure
- Mergers & Acquisition/Disposition Strategy
- Parental/Shareholder Expectations
- Assessment of Business Environment
- Regulatory Issues
(Relevant to Your Core Marketplace Areas)
- Overall Strategy and Expansion Plans

Business Discussion by Main Product Line (Individual Insurance, Group Insurance and Investment Products)

- Competitive Market Position
- Sales Performance by Product Line
- Distribution Channels
- Agent Productivity
- New Products

Additional Discussions for Investment Products

- Separate Accounts Performance/Segregated Funds Performance (U.S. and Canada)
- Review of Separate Account/Segregated Fund Guarantees
- Spread Analysis

Additional Discussions for Group Insurance

- Growth Opportunities, Including Updates on the Company's Target Levels for New Business
- Customer Service
- Impact of Renewal Rating Actions on Profitability and Persistency as Well as Impact of Changes in Valuation Assumptions

Investments

- Balance Sheet Composition
- Investment Strategy
- Management/Performance of Portfolio
- Asset/Liability Management
- Discussion of Liquidity

Financial Performance

- Profitability by Product Line or Business Unit
(Mortality, Morbidity, Expenses vs. Assumptions)
- Projected Two-Three Year Business Plan
- Budgets, Investment in Technology
- Embedded Value Analysis (European Companies)
- External/Internal Actuarial Reviews

Capitalization

- Capitalization (Targeted Levels, Statutory Coverage, Access to Capital, ROE Targets)
- Dividend Policy
- Holding Company and Corporate Overview (Leverage, Coverage, Cash at Holdco, Consolidating Statements)
- Reinsurance Agreements

Enterprise Risk Management*

- ERM Framework
- Risk Correlation
- Modeling Capabilities—Economic Capital/DFA/RAROC
- Risk Tolerance
- Risk Management Objectives (i.e., front-end [i.e., product design], back-end [i.e., hedging, reinsurance, etc.]

*A.M. Best's expectation of a company's ERM capabilities will vary depending on an insurer's scope of operations, size and risk complexity. In some cases, a separate ERM meeting may be required.



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