Request For Comment (RFC) | Insurer Risk-Based Capital Adequacy – Methodology & Assumptions

Live Webinar and Q&A – May 11, 2023

S&P Global Ratings
Background to the RFC
• On December 6, 2021, we published an RFC on proposed criteria for insurer risk-based capital (RBC) adequacy

• On May 9, 2022, we announced our intention to issue a subsequent RFC to incorporate proposed alternatives for determining the rating input of bonds and loans, along with any other changes following consideration of comments received

• On May 9, 2023, we published the revised RFC which supersedes the RFC published in December 2021

• The revised RFC incorporates changes to our 2021 RFC in response to external feedback received

• Our RBC criteria establishes the quantitative starting point for our opinion of an insurer’s capital and earnings
## Request For Comment | Project Goals

1. **Incorporate recent data and experience** since our last update of the insurance capital model criteria.

2. Enhance **global consistency** in our risk-based capital analysis for insurance companies.

3. **Increase risk differentiation** in capital requirements where relevant and material to our capital adequacy analysis, and **reduce complexity** where it does not add analytical value.

4. Improve the **transparency and usability** of our methodology, such as our proposal to supersede 10 related criteria articles with the new single criteria article.

5. Support our ability to **respond to changes in macroeconomic and market conditions** by introducing sector and industry variables.
Insurance Criteria Context

- Convexity Risk Criteria
- Economic Capital Model Criteria
- Methodology For Assessing Capital Charges For Commercial Mortgage Loans Held By U.S. Insurance Companies
- Trade Credit Capital Requirements
- Assessing Property/Casualty Insurers’ Loss Reserves
- Methodology: Capital Charges For Regulatory Closed Blocks Under Standard & Poor’s Capital Model Framework
- Key Credit Factors For Title Insurers
- Insurers Rating Methodology
- Enterprise Risk Management Criteria
- Methodology For Assessing Capital Charges For U.S. RMBS And CMBS Securities Held By Insurance Companies
- Methodology: Mortgage Insurer Capital Adequacy
- Methodology: Treatment Of U.S. Life Insurance Reserves And Reserve Financing Transactions
- Insurers Rating Methodology
- Methodology And Assumptions For Analyzing Bond Insurance Capital Adequacy
- Hybrid Capital: Methodology And Assumptions
- Group Rating Methodology

Green indicates criteria articles which will be superseded if the proposed capital model criteria is adopted

* Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model
* Archived criteria
* Updated criteria
# RFC: Insurance Capital Model Criteria
RFC: Request For Comment

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Criteria updates made in 2019
# Notable Areas of Change From Prior Proposal Based On Market Feedback

<table>
<thead>
<tr>
<th>Change Area</th>
<th>Details</th>
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<tbody>
<tr>
<td>Determining the rating inputs for bonds and loans</td>
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<td>Hybrid And Debt-Funded Capital</td>
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<td>Value Of In-Force Business</td>
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<td>Diversification</td>
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<td>Materiality Threshold For Analytical Adjustments</td>
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<td>Real Estate Country Categorization</td>
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<td>Longevity Risk</td>
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<td>Morbidity Risk--Critical Illness</td>
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<td>Non-Life Lines Of Business-Various Risk Charges</td>
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<td>Natural Catastrophe</td>
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<td>Infrastructure Equity Holdings</td>
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<tr>
<td>Corporate-Owned Life Insurance And Other Assets</td>
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Key RFC documents
We issued an updated RFC, prototype model, summary of feedback and FAQ.
Planned events and outreach
Global Webinars | Dedicated Webpage

**Webinars**
- **Today (May 11th):** Global webinars to provide an overview on the RFC and guidance on related resources
- **Tue, May 16th:** Webinars that will examine the proposal further and help market participants better understand the key analytical elements of the RFC
- **We will provide additional opportunities to explore the RFC, including country specific outreach in local languages**

**Dedicated Webpage** @ [https://www.spglobal.com/ratings/en/about/criteria/rfc-insurance-2023](https://www.spglobal.com/ratings/en/about/criteria/rfc-insurance-2023)
- Webpage includes links to:
  - The RFC & related articles
  - Prototype capital model
  - The webinars' registration pages
  - Related slides
  - Process to submit comments
  - Will be updated continuously

**Contacts** *(see slide 17)*:
- Also feel free to reach out to your usual contact or any of the team listed in the RFC
Expected rating impact
Insurance Criteria Framework:

- Competitive Position
- Business Risk Profile
- Governance
- Liquidity
- Comparable Ratings Analysis
- Stand-Alone Credit Profile
- Group or government influence
- Financial Strength Rating
- Issuer Credit Rating

Darker shading represents a greater potential effect on the rating construction.

IRM – Insurers Rating Methodology; RFC - Request For Comment.
Source: S&P Global Ratings.
Ratings Impact | Expectations

• Our current expectation is that the proposed criteria could lead to credit rating actions on about 10% of ratings in the insurance sector

• Majority of rating changes estimated to be by one notch, with more upgrades than downgrades

• Up to 30% of insurers could see a change in Capital and Earnings assessment

• Lower potential impact on ratings compared with components of our ratings reflects the application of IRM, GRM, and sovereign rating constraints

IRM – Insurers Rating Methodology; GRM – Group Rating Methodology.
RFC process
We encourage interested market participants to submit their written comments on the proposed criteria by June 30, 2023, to https://disclosure.spglobal.com/ratings/en/regulatory/ratings-criteria-/articles/criteria/requests-for-comment/filter/all%23rfc, where participants must choose from the list of available Requests for Comment links to launch the upload process (you may need to log in or register first).

We will review and take such comments into consideration before publishing our criteria once the comment period is over. Upon publication of the finalized criteria, S&P Global Ratings will post comments received during the RFC process to this website.

Comments may also be sent to CriteriaComments@spglobal.com should participants encounter technical difficulties.

Current criteria is in effect until the proposal is finalized
When finalized we will publish a list of issuers with potential rating changes (Under Criteria Observation list)
Thank You - Any Questions, Please Feel Free To Contact Us

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<tr>
<th>Insurance Team Contacts*:</th>
<th>Methodologies Contacts:</th>
<th>Media Contacts:</th>
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*See RFC for additional contacts

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17