



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

Live Webinar and Q&A – May 11, 2023

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**S&P Global**  
Ratings

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RFC - Request For Comment

A 3D illustration of a Rube Goldberg-style contraption. It features several horizontal bars (levers) supported by a central vertical ring. Spherical weights are placed on these bars, creating a complex system of balance and movement. The spheres are highly reflective, showing highlights and shadows. The background is a plain, light gray.

# Background to the RFC

RFC - Request For Comment

# Request For Comment | Overview

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- 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

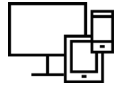
RFC - Request For Comment

# Request For Comment | Project Goals

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



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



**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

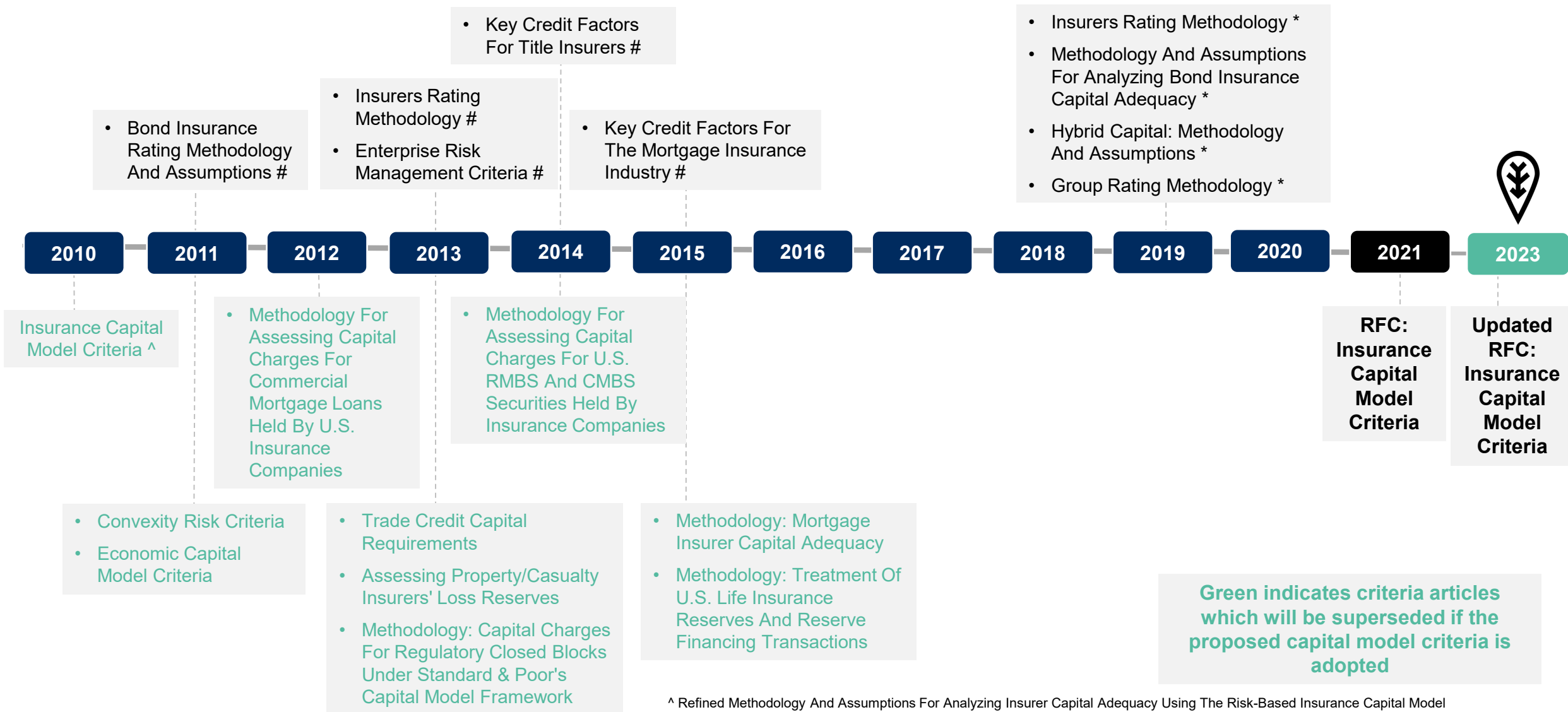


Improve the **transparency and usability** of our methodology, such as our proposal to supersede 10 related criteria articles with the new single criteria article



Support our ability to **respond to changes in macroeconomic and market conditions** by introducing sector and industry variables

# Insurance Criteria Context



<sup>^</sup> Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model

# Archived criteria

\* Criteria updates made in 2019

RFC - Request For Comment

# Notable Areas of Change From Prior Proposal Based On Market Feedback

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Determining the rating inputs for bonds and loans	Hybrid And Debt-Funded Capital	Value Of In-Force Business	Diversification
Materiality Threshold For Analytical Adjustments	Real Estate Country Categorization	Longevity Risk	Morbidity Risk--Critical Illness
Non-Life Lines Of Business-Various Risk Charges	Natural Catastrophe	Infrastructure Equity Holdings	Corporate-Owned Life Insurance And Other Assets

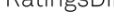
A 3D illustration of a balancing act. Five shiny, metallic spheres are positioned on three horizontal beams. The bottom beam is perfectly balanced with one sphere on each end. The middle beam is tilted upwards on the right side, with one sphere on the left and one on the right. The top beam is also tilted upwards on the right side, with one sphere on the left and one on the right. A fifth sphere is positioned in the center of the middle beam, balancing it. The background is a light gray gradient.

# Key RFC documents



**We issued an updated RFC, prototype model, summary of feedback and FAQ.**

# S&P Global Ratings



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**Criteria | Insurance | Request for Comment:**

## Request For Comment: Insurer Risk-Based Capital Adequacy--Methodology And Assumptions

**May 9, 2023**

(Editor's Note: This request for comment supersedes a previous version, "Request For Comment: Insurer Risk-Based Capital Adequacy -- Methodology And Assumptions," published Dec. 6, 2021.)

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### OVERVIEW AND SCOPE

S&P Global Ratings is requesting comments on its proposed methodology and assumptions for analyzing the risk-based capital (RBC) adequacy of insurers and reinsurers. We apply the output from these criteria in our insurance framework (see our insurers rating methodology in "Related Criteria") to assess capital and earnings—a key rating factor for insurers.

These proposed criteria apply globally to all insurers in the life, property/casualty, health, mortgage, trade credit, and title insurance and reinsurance sectors. The proposed criteria also apply to assessing the asset-related risks of bond insurers.

These proposed criteria are intended to be used in conjunction with the proposed sector and industry variables report (see Appendix II).

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### Key Publication Information

- Original publication date: May 9, 2023
- Response deadline: June 30, 2023
- Effective date: These Proposed criteria will be effective upon publication of the final criteria, except in jurisdictions that require local registration. In those jurisdictions, the criteria will be effective only after the local registration process is completed.
- If adopted, these criteria will supersede the criteria articles listed in the "Criteria To Be Fully Superseded" section at the end of this article.





# Summary Of Feedback On Proposed Criteria For Insurer Risk-Based Capital Adequacy

May 9, 2023

On Dec. 6, 2021, S&P Global Ratings published a request for comment (RFC) on its proposed criteria for insurer risk-based capital adequacy. Following feedback from market participants, we published a revised RFC, "Request For Comment: Insurer Risk-Based Capital Adequacy—Methodology And Assumptions," on May 9, 2023. Our proposed changes to our existing criteria are intended to enhance global consistency and transparency, improve our ability to differentiate risk, improve usability by consolidating criteria, and incorporate updated methodologies, data, and regulatory developments since the publication of the original RFC.

Our risk-based capital (RBC) adequacy criteria establish the quantitative starting point that is integral to our analysis of the capital adequacy of insurance and reinsurance companies worldwide. We base our overall opinion of an insurer's capital and earnings on insights drawn from this criteria framework, evaluated in conjunction with other factors in our insurer ratings methodology (IRM) framework.

Variations in global accounting standards, regulatory regimes, and complex legal entity structures present challenges in the analysis of insurance company capitalization, but we take a global approach, noting where there are specific regional treatments. We typically express our capital and earnings opinion by comparing total adjusted capital with risk-based capital requirements at different confidence levels.

We'd like to thank investors, issuers, and other market participants who provided feedback. This article, which should be read in conjunction with the revised RFC, provides an overview of the notable changes we made to the proposed criteria based on significant feedback, areas of the proposed criteria without significant changes, and changes we made to the proposed criteria that did not arise from market feedback.

## NOTABLE CHANGES FOLLOWING SIGNIFICANT MARKET FEEDBACK

### Determining The Rating Input For Bonds And Loans

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# S&P Global Ratings

Credit FAQ:

## Understanding S&P Global Ratings' Revised Request For Comment On Proposed Changes To Its Insurer Risk-Based Capital Adequacy Methodology

**May 9, 2023**

On Dec. 6, 2021, S&P Global Ratings published a request for comment (RFC) on its proposed criteria for insurer risk-based capital adequacy. Following feedback from market participants, we published a revised RFC, "Request For Comment: Insurer Risk-Based Capital Adequacy—Methodology And Assumptions," on May 9, 2023.

You can find the RFC and all related materials and information on this webpage:  
<https://www.spglobal.com/ratings/en/about/criteria/rfc-insurance-2023>.

### Frequently Asked Questions

**What has changed in the new proposed criteria relative to the previous proposed criteria?**

We considered the extensive feedback received and revised several aspects of our proposed criteria. We published an overview of the notable changes we made to the proposed criteria (see Summary Of Feedback On Proposed Criteria For Insurer Risk-Based Capital Adequacy," May 9, 2023).

We also made available a capital model prototype to aid market participants in evaluating the proposed criteria.

**How will the proposed criteria, if adopted, affect ratings?**

We believe that, based on our testing and assuming entities in scope maintain their credit risk characteristics, the proposed criteria would lead to credit rating actions on about 10% of ratings in the insurance sector. The potential ratings impact is based on our testing assumptions. We estimate the majority of rating changes would be by one notch, with more upgrades than downgrades. We expect the proposals to have a more material impact on our capital and earnings assessment, with changes in this key rating factor for up to 30% of insurers. These score changes could affect up to 20% of stand-alone credit profiles. The lower potential impact on ratings

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**S&P Global**  
Ratings

A 3D illustration of a Rube Goldberg-style contraption. It features multiple levels of levers and spheres. At the base, a large sphere sits on a horizontal lever. Above it, another lever is tilted, with a sphere on its left end and a larger sphere on its right end. Further up, a third lever is tilted, with a sphere on its left end and another sphere on its right end. The spheres are highly reflective and metallic. The entire structure is set against a light gray background.

# Planned events and outreach

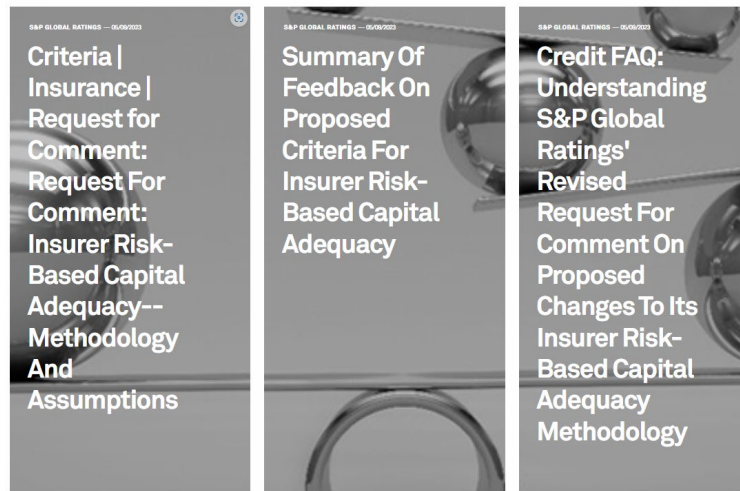
# Global Webinars | Dedicated Webpage

## Webinars

- **Today (May 11<sup>th</sup>):** Global webinars to provide an overview on the RFC and guidance on related resources
- **Tue, May 16<sup>th</sup>:** 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>

- 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):

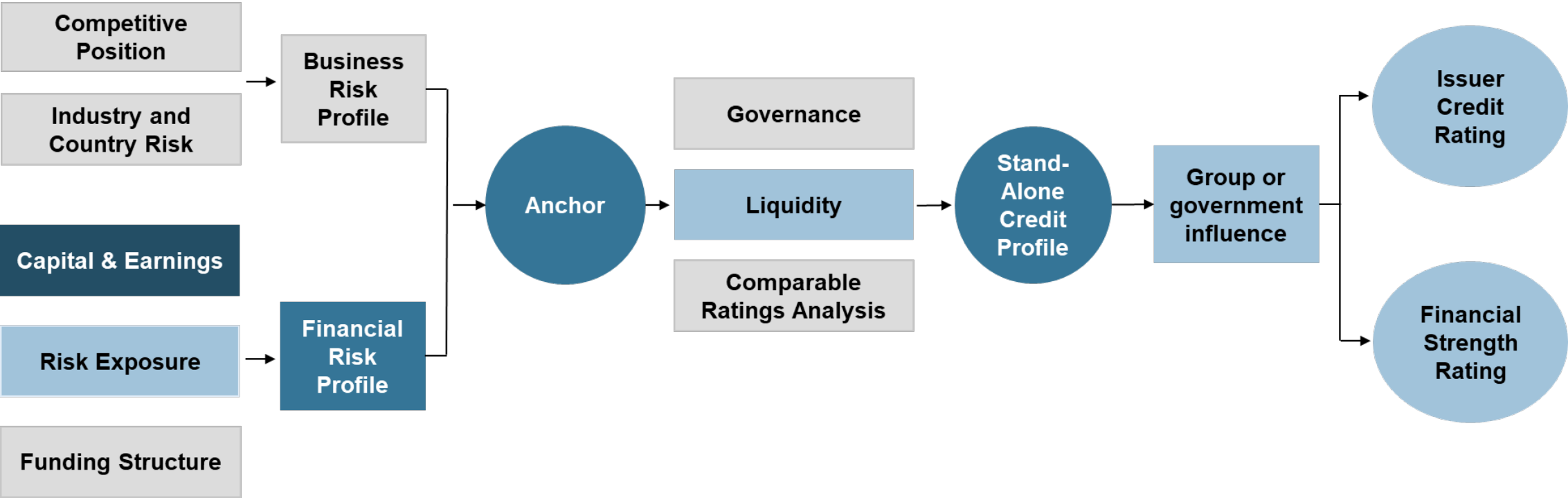
- Also feel free to reach out to your usual contact or any of the team listed in the RFC

A 3D illustration of a complex mechanical contraption, resembling a Rube Goldberg machine. It features several horizontal bars or levers of varying lengths, supported by a central vertical ring at the bottom. Multiple large, highly reflective metallic spheres are positioned at various points along these levers. The spheres are arranged in a way that suggests a sequence of events or a delicate balance. The background is a plain, light gray.

# Expected rating impact

# Capital Model | In Context of IRM Framework and Potentially Impacted Areas

## Insurance Criteria Framework:



*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

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- 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.

A 3D illustration of a Rube Goldberg-style contraption. It features multiple levels of levers and spheres. At the bottom, a large sphere sits on a horizontal beam. Above it, another beam is tilted, with a sphere on the left and a larger sphere on the right. Further up, another tilted beam has two spheres on it. The topmost beam has two spheres. The entire structure is composed of metallic, reflective spheres and thin, light-colored beams. The background is a plain, light gray.

# RFC process

# Request For Comment | Response Deadline

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- 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](mailto: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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