

Advanced Analytics Services

Supporting Rated Insurers Drive for Capital Efficiency



S&P Global
Ratings

Capital reserve requirements for high-yield asset classes can constrain insurers' investment management practices.

With S&P Global Ratings Advanced Analytics Services, rated insurers can review charges against specific asset classes like infrastructure, hedge fund / private equity investments, long-tail mortality lines, or others that attract a high capital charge. Feedback is provided in the context of the S&P Global Ratings Insurance Capital Model and S&P Global Ratings' ratings analysis regarding the insurer. In that context it may be useful in addressing an insurer's overall capital retention requirements at its current rating level. While S&P Global Ratings Advanced Analytics Services is not advice or a recommendation, it can provide clients with another piece of the puzzle in their decision analysis.

For insurance companies, the outcome of our Advanced Analytics Services may allow you to:

- Recalculate your capital charges so that you may more efficiently allocate your capital
- Redeploy proceeds to achieve enhanced diversification
- Sharpen the implementation of your economic objectives
- Provide more rounded explanation of investment areas to your stakeholders and investors

Case Study – Large insurer

A large insurer was not comfortable with its capital position and requested feedback on its holdings of four separate infrastructure equity investments with a total investment value of close to €2bn. Our analysis, based on a considered review of the sector risk, the individual credits and diversification of exposure, determined that, in the context of our ratings analysis regarding this insurer, the capital charges for these four investments should be reduced by approximately 26% points, cutting the insurer's risk capital requirements by just over €450m.

Advanced Analytics Services

Advanced Analytics Services is an enhanced capital charge analysis applied to a particular part of a rated insurance company's assets or liabilities. Through Advanced Analytics Services we develop bespoke capital charges for specific exposures to a variety of risk types in the context of our Insurance Capital Model.

Our Insurance Capital Model is a global model applied in our insurance ratings analysis assessing an insurer's capital adequacy by applying standard capital charges for different risks, thereby looking at the relationship of available capital to capital required to offset its risk exposures. These standard charges may over- or understate the actual risk exposure for a specific asset or liability risk that an insurance company holds.

On the basis of in-depth information about the underlying risks provided by the insurance company, Advanced Analytics Services develops individual tools and models to calculate a bespoke capital charge for these exposures, which we then incorporate into our insurance capital model analysis of the insurer.

Advanced Analytics Services can be used to calculate the expected or potential losses resulting from specific exposures. The total capital requirement determined by Advanced Analytics Services analysis is based on the sum of the expected or potential incremental losses for each type of exposure and potentially may improve an insurer's capital position relative to applying the standard capital charges.

In conjunction with an Advanced Analytics Services project, we will provide a report to the requesting insurer detailing our analysis, the results of our evaluation and any potential impact that the analysis may have on our capital model outcome or insurance rating.

Examples of Advanced Analytics Services provided by S&P Global Ratings include:

- ALM risk- asset accumulation businesses (Interest rate VaR)
- Diversified fund of hedge fund portfolios
- Closed block analysis
- Specific fixed income portfolios (Credit VaR)
- Infrastructure asset portfolios
- Applied hedge credit-Variable Annuity portfolios
- Private equity portfolios

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