

Insurance Companies

Ratings on insurance companies

Overview

The LB-Rating module Insurance Companies is designed for assessing companies whose main business is insurance. It covers all branches of the insurance industry including mixed groups. Obligors may be headquartered in industrialized or offshore countries.

The rating algorithm is based on a scorecard approach, which combines numerous quantitative and qualitative factors. Market data are taken into account to cover current economic developments. A differentiated modelling approach allows to address the specific characteristics of each type of insurer. The system produces a rating that corresponds to a one-year probability of default (PD).

Annual reviews of Insurance Companies started in 2006; the module was approved for the IRB Approach in early 2007.

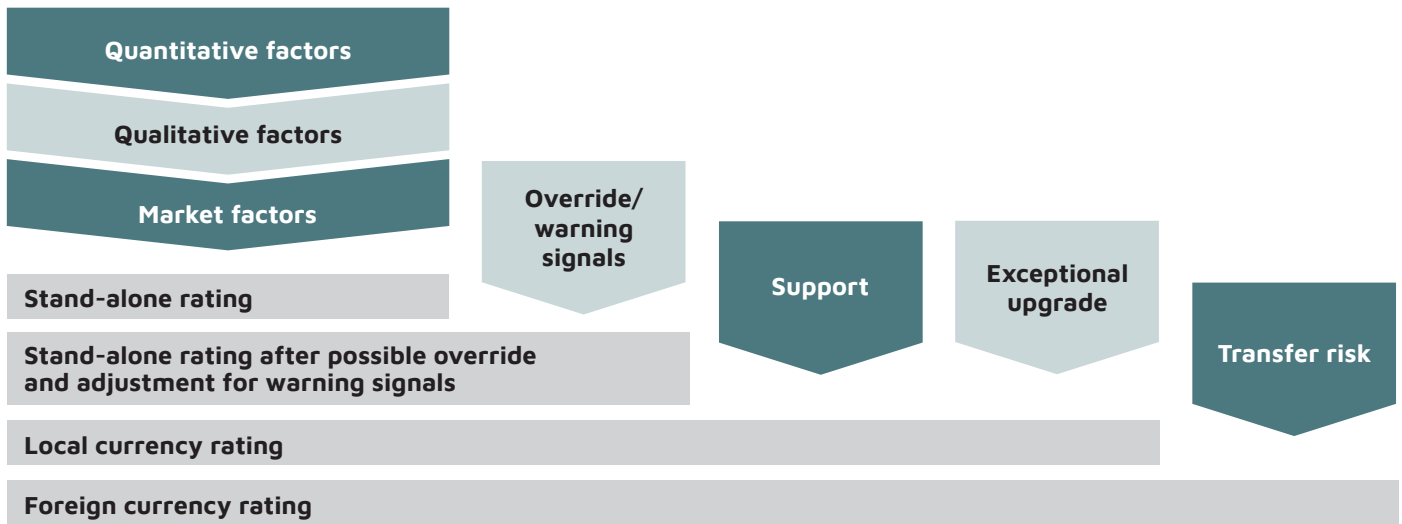
Scope of Application

- The scope of application of the Insurance Companies module consists of companies that usually earn more than 50% of their gross operating income in the insurance sector or are commonly classified as insurance companies.
- Holding companies whose subsidiaries mainly carry on insurance business are also covered.
- All types of insurers can be rated: life and health, non-life and liability, reinsurance as well as mixed groups.
- The companies must be headquartered in industrialized or offshore countries.

Limitations

- The module cannot be used to rate.
- Insurance companies that are closed for new business.
- Social security bodies such as public health insurers.

Rating Process



- Dark arrow: mainly data-based
- Bright arrow: mainly human judgement

Quantitative and Qualitative Factors, Market Factor

The quantitative factors are based on financial reporting information. Variations due to differing accounting standards are taken into account. In addition, analysts need to evaluate a number of qualitative factors, which is done in a systematic and standardized manner. To take into account current economic developments, the rating model incorporates insurance-specific CDS information.

Overrides and Warning Signals

If there are exceptional circumstances that have not been sufficiently taken into account otherwise, analysts can override a rating or enter a warning signal and change the rating manually.

External Influence and Exceptional Upgrade

Intra-group relations and guarantee schemes can have positive or negative effects on the rating result. External influence may be exercised by parent companies or governments. Moreover, excellent external ratings may, under certain circumstances, warrant an exceptional manual upgrade.

Transfer Risk

The additional risk of restrictions on foreign currency transfers in the obligor's or a relevant third party's home country is reflected in the foreign currency rating. This risk must be considered when a loan is not denominated in the obligor's domestic currency.