
RATING METHODOLOGY: CLAIMS-PAYING ABILITY RATING

SUMMARY

This paper provides an overview of RAM Ratings' generic rating approach to the Claims-Paying Ability ("CPA") of insurance companies, encompassing the assessment of general, life and reinsurance companies.

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RAM Ratings' CPA rating portrays the relative risk profile of an insurance company, in relation to its ability to pay policyholders' liabilities or claims. As such, a CPA rating represents the core of an insurer's financial strength, creditworthiness and long-term viability. Conceptually, a CPA rating is the theoretical margin and its stability by which the insurer's assets and cash flow are expected to exceed policyholders' obligations as they come due. In effect, a CPA rating is a measurement of the likelihood of default on the insurer's financial responsibilities to the primary liability category, i.e. the policyholders. All other claims on an insurance company are subordinated to the claims of policyholders. Although this likelihood cannot be calculated in terms of a single ratio, the concept neatly illustrates RAM Ratings' perspective in arriving at its rating opinion.

In addition to understanding the definition of a CPA rating, it is also important for users to know what such a rating does not imply. A CPA rating is not an indication of the product or service quality offered by the insurer. In other words, CPA ratings do not tell a consumer which insurer offers the best value or provides the best service. There is a possibility that some highly rated insurance companies may have products and services that are inferior to some of their lower-rated peers.

In a nutshell, a CPA rating from RAM Ratings gives an independent and professional opinion on the insurer's ability to meet its obligations vis-à-vis policyholders. The CPA rating methodology emphasises the insurer's long-term solvency and its ability to maintain adequate liquidity.

C PA RATING METHODOLOGY

RAM Ratings uses both qualitative and quantitative analyses in its CPA rating process. The importance of qualitative analysis in the rating process cannot be overemphasised. For ratings to have prospective value, RAM Ratings must understand the corporate strategies employed by the insurer as well as the history of the company. Interaction between RAM Ratings' analysts and the senior management of the insurer being rated is central to the rating process.

The purpose of such a process is to develop a set of financial expectations for the insurer being rated. Since a CPA rating is prospective and long-term in nature, the expectations employed in supporting the rating opinion are very important. Subsequent surveillance of the assigned rating and the insurer's financial performance is a continuous process, with actual financial results regularly compared against our expectations. Significant time will be spent on assigning an initial CPA rating, with the assumption that the rating will not be subject to frequent revision and that it will essentially remain unchanged throughout normal business cycles.

In addition to external issues such as industry characteristics and regulatory environment, RAM Ratings' CPA ratings are based on a detailed analysis of an insurer's current financial standing, as well as an assessment of how future operations and developments will either positively or negatively affect that position. RAM Ratings' analysis of an insurer will initially focus on the company's competitive position and the strength of its franchise value. Next, RAM Ratings evaluates an insurer's various risk exposures and its defensive characteristics. Finally, the assessment considers the impact of affiliated relationships and management on the insurer's risk profile. Every insurer is evaluated within the following framework.

Competitive Position

This represents RAM Ratings' first area of assessment that begs the question, "What is the basis for the company's competitive advantage?". Insurers that have strong balance sheets and acceptable risk exposures can provide very high near-term claims-paying ability. However, for a high level of financial strength to be maintained over the long run, the insurer must have a sustainable competitive advantage. Strengths or weaknesses in the following areas can affect a company's ability to achieve competitive advantage:

- *Distribution capabilities* - Apart from the traditional agency force, other methods of distribution such as through mail orders, banking networks and credit card companies can enhance an insurer's profile.
- *Marketing and sales effectiveness* - The management's ability to maximise its marketing resources is an added advantage to the insurer's competitive position.

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- *Brand name recognition and franchise value* - Market recognition is important in the insurance business, as is the perception attached to that recognition. A positive perception will invariably mean good franchise value while the opposite will point to poor franchise value
- *Market share/position* – Includes leadership, business line diversity and niche.
- *Unique products and value-added services* - An insurer's ability to provide value-added services together with a wide range of products is an advantage.
- *Administrative capabilities* - The management's aptitude in adapting to changing business requirements is important. An efficient management information system will help towards faster and more well-informed management decisions.
- *Expense efficiencies, critical mass and pricing advantages* - Size is an added advantage; economies of scale allow insurers to price their products more competitively.
- *Well-executed investment strategy* - The capability of the management to follow the adage of "buy low, sell high" will increase confidence in the insurer's investment ability.

Underwriting Quality and Risk Exposure

In evaluating underwriting quality and risk exposure, RAM Ratings asks the question, "What is the underwriting standard adhered to and the likelihood that an adverse loss situation will occur?". Although all insurers take on various risks as part of their normal business and underwriting activities, such risks must be understood by the management and controlled well, both individually and in totality. As such, prudent underwriting practices and risk management processes are key to the insurer's financial well-being since excessive claims could undermine its profitability and impinge on its long-term ability to pay claims. Key areas of analysis in relation to an insurer's underwriting quality include:

- *Underwriting criteria, process, expertise and claims experience* – Here, we look for prudent underwriting criteria and a profitable underwriting track record.
- *Underwriting results* - Ratios obtained from the underwriting results indicate underwriting profitability and operating cost efficiency.
- *Exposure to price competition and pricing flexibility* – This is important since an insurer's underwriting standards may be compromised by a management that is confronted by intense pricing pressures.

In evaluating an insurer's risk exposure, we assess the likelihood of an adverse loss situation occurring. Areas analysed include:

- *Nature and rate of insured portfolio growth* - Excessive growth of the insured portfolio may entail potentially large risk exposures that are not apparent or inadequately reserved against.
- *Concentration and potential of large loss exposures* - Segmental analysis of insured portfolio.
- *Whether insured risks are long or short tail lines* - Long tail lines are more difficult to predict, price and reserve for losses.
- *Unfavourable regulatory or legal climate* - For instance, substantial amount awarded to third-party liability claim against the insurer.

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- *Historical reserves development and loss ratio* - Trend analysis to highlight any abnormality (specific only to general insurance business).
- *Latent exposures from business underwritten during earlier years* - For example, product liability insurance (specific only to general insurance business).
- *Mismatch between assets and liabilities* - Interest rate risk (specific only to life insurance business).
- *Mortality and morbidity exposure* - Product pricing is based on expected mortality and morbidity rates. The profitability of an insurance product depends on the actual mortality and morbidity experienced (specific only to life insurance business).
- *Business growth* - Inadequately controlled rapid growth can have a negative impact on a CPA rating because of the high acquisition costs involved¹. Slow or declining growth relative to its peers can also affect the rating negatively as it would indicate erosion of the insurer's competitive position (specific only to life insurance business).

Investment Portfolio

Under this rating factor, we look at the composition, credit quality, liquidity and maturity profile of the insurer's portfolio of investments. Apart from being major income contributors to insurers, investments in income-generating assets (e.g. fixed-income securities, shares and investment properties) also represent their claims-paying resources.

In Malaysia, regulatory requirements limit the maximum proportion of policyholders' funds that can be invested in each category. However, the compositions and profiles of the investment portfolios of insurance companies can still vary, depending on the risk appetite and investment strategy of each company. Key areas of analysis include:

- *Asset composition* - Look for a good balance between investment yield and risk; avoid over-exposure to investment in equities, which are deemed more risky.
- *Credit quality of assets* - High level of poor-credit investments is deemed unfavourable.
- *Liquidity profile* - Matching of maturity profiles between investments and liabilities; investment in real estate/properties can be illiquid.

Capital Strength

From this aspect, RAM Ratings asks the question, "How well can the company withstand adversity?". This rating factor looks at how well the insurance company is capitalised, which will provide an indication of its ability to withstand stress. Companies that have strong capitalisation are more capable of withstanding losses arising from claims, thus implying a strong ability to pay claims. Nonetheless, the insurer's capital strength has to be assessed relative to its risk exposures since higher risk

¹ Some costs, such as commissions, are paid upfront but are assumed to be gradually expensed throughout the term of the life insurance policy. Hence, non-recovery of the expenses is possible if the policy is terminated early.

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exposures would require stronger protection, to provide the same level of comfort and vice versa. Key areas looked at when assessing the capital strength of insurance companies include:

- *Solvency requirement and position* - We look at an insurer's level of solvency based on regulatory requirements and peer comparison.
- *Leverage position (i.e. insurance liabilities against assets)* - The higher the leverage, the lower the ability of the capital to withstand stress.
- *Reserve adequacy* - High reserve levels would ease pressure on profits.
- *Reinsurance programmes with highly rated reinsurers* – The presence of such is viewed positively as reinsurance represents a source of soft capital.

Profitability

An insurer's profitability is an important factor when assessing its ability to build and preserve its capital. This rating factor also provides an insight into the company's operating efficiency and long-term viability.

- *Profitability ratios* – Healthy profitability would provide some protection against pricing pressures and claims.
- *Trend analysis* - Look for consistency and sustainability of profit.
- *Impact of reserving differences* - Important to look at reported results since financial results can be “manipulated” through under-reserving.

Affiliate Relationships and Ownership Quality

RAM Ratings asks the question, “How can an insurer's relationship with its affiliates either positively or negatively impact its financial strength?”. Within our assessment, all insurers are first evaluated and rated as stand-alone entities. However, to the extent that an affiliate relationship can impact an insurer's stand-alone profile, its CPA rating may be adjusted. These adjustments can be affected by the following:

- *Parent's financial strength and financial flexibility* - Support from financially strong parents/shareholders is a positive factor in a CPA rating.
- *Upstream dividend requirements* - Heavy upstream dividend requirements could stretch the insurer's financial resources and are therefore negative.
- *Potential need to divert capital to support under-performing affiliates* - The effect is similar to upstream dividend requirements.
- *Business synergies with parents or affiliates* - A positive factor which could provide benefits such as captive market share, franchise value and cost efficiency.
- *Strengths and weaknesses of subsidiary companies* - Must the insurer provide financial support to these subsidiaries?

- *Formal guarantees or support agreements* - Track record of support for affiliates.

Management

Although often difficult to assess, there is no denying that management plays a large part in the overall risk profile of any company. RAM Ratings’ evaluation of management focuses on the following:

- *Credibility, track record and control* - Here, we look for the track record of key management personnel in meeting expectations and their control over the operations of the company.
- *Strategic vision and risk appetite* – Management’s vision and risk appetite are indicators of the company’s future direction, which will in turn mould the company’s long-term risk profile.
- *Succession plan* - Continuity of management control and direction.

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QUANTITATIVE ANALYSIS

RAM Ratings’ quantitative analysis measures depend on the particular insurer’s line of business. RAM Ratings has 2 distinct quantitative measures, one for the general insurance business and another for the life business. The differences between the 2 stem from the inherent features of these businesses. General insurance products are typically short-term in nature and are based on the concept of indemnity; life insurance products are usually long-term in nature, where claims are usually paid in full. Below are the various quantitative measures considered:

General Insurance Quantitative Analysis Measures

Underwriting Quality	Asset Quality	Profitability
<ul style="list-style-type: none"> • Insurance portfolio mix • Claim ratio • Expense ratio • Combined ratio 	<ul style="list-style-type: none"> • Investment mix • Asset maturity profile 	<ul style="list-style-type: none"> • Gross underwriting margin • Pre-tax underwriting margin
<p>Liquidity</p> <ul style="list-style-type: none"> • Operating cash flow • Ratio of liquid assets to liabilities • Review of external sources of liquidity 	<p>Capitalisation / Solvency</p> <ul style="list-style-type: none"> • Capital and capital reserves • Minimum solvency requirement • Solvency margin • Gross/net leverage • Ratio of technical reserves to claims 	<ul style="list-style-type: none"> • Interest yield • Investment yield • Internal capital formation • Net profit • Return on assets • Return on capital

Reinsurance

- Retention ratio

Underwriting Quality

Underwriting and pricing are 2 of the most critical risks for a general insurance company. Claims expenses represent the largest cost item for most insurers. Commission and other underwriting expenses represent the other major costs. To arrive at the overall underwriting quality of the insurer, we would examine these items in relation to premiums received. These will then be compared to those of its peers. The analysis also covers both the overall portfolio and line of business. Any trends that emerge from such analysis will then be compared against industry trends.

Capitalisation/Solvency

Capital serves as an insurer's cushion in absorbing expected and unexpected negative events. Therefore, a strong level of capital relative to the risks taken by the insurer is an important factor when looking at its overall credit quality. RAM Ratings first analyses the nature of the insurer's reserves to clearly distinguish between necessary insurance reserves and capital reserves. RAM Ratings then examines various leverage ratios that measure the level of underwritten business compared to the level of capital and reserves. The trend in these ratios and comparisons with peers are also examined. In addition, RAM Ratings reviews regulatory ratios, such as solvency margins, that identify insurers which require regulatory attention. Finally, RAM Ratings looks at the adequacy of insurance reserves by reviewing actuarial valuation reports.

Asset Quality

RAM Ratings examines the characteristics of an insurer's investment mix and compares it against its liability portfolio and peers. In addition, RAM Ratings also looks at the concentration of risk by asset class, geographical region and size of investment. Capital exposures to various risky assets are calculated to check the potential volatility of an insurer's capital base. These factors include the credit risk of fixed income securities, the market volatility risk of equity securities, and the impact of real estate holdings. Historical investment performance is also examined to determine the insurer's track record.

Liquidity

The liquidity of an insurer's assets and liabilities is an important factor in a CPA rating. From a cash flow perspective, RAM Ratings reviews the characteristics of the operating cash flow of an insurer and

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how these may change in certain economic and underwriting environments. The ratio of liquid assets to liabilities measures the portion of an insurer's liabilities that is covered by cash and other liquid assets. RAM Ratings also looks at the characteristics of an insurer's liability duration as well as its external funding lines.

Profitability

A major element in credit analysis is overall profitability. An insurer with sound underwriting standards that generate sustainable profits from a reasonable level of capital should be able to meet policyholders' claims. In addition to determining the absolute level of sustainable profits, RAM Ratings also looks at the sources, volatility and trends of the insurer's income over time. Profit returns are also measured relative to assets and capital. These figures are then compared to those of its peers with similar business profiles.

Reinsurance

There is a 2-fold aim to reviewing a general insurer's reinsurance programme. Firstly, to gauge its adequacy in protecting the insurer against large loss exposure; secondly, to determine the counterparty exposure based on the reinsurer's risk profile. Adequacy of reinsurance basically means reviewing the various risk retention levels in every class of business. Collectibility issues are looked at based on the credit quality of each reinsurer.

Life Insurance Quantitative Analysis Measures

<p>Profitability</p> <ul style="list-style-type: none"> • Gross underwriting margin • Pre-tax underwriting margin • Interest yield • Investment yield • Internal capital formation • Net profit • Return on assets • Return on capital <p>Liquidity</p> <ul style="list-style-type: none"> • Operating cash flow • Ratio of liquid assets to liabilities • Duration of assets and liabilities • Review of external sources of liquidity 	<p>Asset Quality</p> <ul style="list-style-type: none"> • Investment mix • Asset maturity profile <p>Capitalisation/Solvency</p> <ul style="list-style-type: none"> • Capital and capital reserves • Minimum solvency requirement • Solvency margin <p>Underwriting Quality</p> <ul style="list-style-type: none"> • Insurance portfolio mix • Mortality ratio • Lapse ratio • Investment yield • Expense ratio
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Profitability

Similar to the general insurance business, as highlighted earlier.

Liquidity

Since the life insurance business is long-term in nature, the sensitivity of the balance sheet items to nominal interest rate changes is important for a thorough credit risk analysis. Apart from this, the analysis is generally similar to that for the general insurance business.

Asset Quality

Investing the premiums received from policyholders is a key activity of a life insurer. Therefore, the quality of these investments is an important determinant of the volatility of an insurer's creditworthiness over time. Changes in the quality of these investments can have a dramatic impact on its overall profitability and capitalisation.

Capitalisation/Solvency

Similar analysis as for the general insurance business, as highlighted earlier.

Underwriting Quality

In the life insurance business, products are priced based on certain assumptions regarding the key variables in the future performance of these policies. These variables include persistency (how long the business will remain in the books), mortality (probability of death vis-à-vis age attained), investment yield and expected expenses (fixed and variable costs of doing business). Actual experience will determine the adequacy of such assumptions. If the assumptions underestimate the actual experience, capitalisation will be affected negatively. On the other hand, if the assumptions overestimate the actual experience, the life insurer will record better profits. Therefore, these assumptions establish the underwriting quality of a life insurer.

THE IMPACT OF SIZE AND CAPITAL ON A CPA RATING

Size

All else being equal, larger companies would more easily achieve higher ratings compared to smaller companies. However, the real issue is not size per se, but what size implies:

- Several fundamental characteristics are usually aided by size, including: diversification; market position; expense efficiencies; financial flexibility and access to capital markets: ability to influence pricing; ability to influence regulations; and ability to attract high-quality management personnel.
- Strong results are more impressive when achieved on a larger scale and on a more diversified basis, since they imply management breadth and depth as well as a better business franchise. Although it is very impressive when a small niche company earns consistently strong profits, it is more convincing when the same results are achieved against a larger, more diverse business.

To achieve higher ratings, smaller companies must demonstrate that they have been able to overcome the challenges inherent in small companies, and that they possess the necessary strengths within each of the key areas of our analysis.

However, there are also times when sheer size can have a negative impact on a rating:

- Big companies are usually more bureaucratic than smaller ones and, as a result, may be less nimble. This can prove especially harmful during periods when trends are negative since turnarounds are harder to achieve.
- Big companies are faced with greater complexities, making them harder to manoeuvre and control.

Capital

As highlighted earlier, a CPA rating is a measure of the strength and variability of the margin by which assets are expected to exceed liabilities on a sustainable basis. Therefore, the existing capital plays a critical role in the assessment of an insurer's CPA rating. However, there appears to be some confusion concerning the extent that the existing capital levels can influence a rating. RAM Ratings' policy on this is as follows:

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- In the absence of a viable block of business, manageable risk exposures and quality management, a company is not likely to get a high rating regardless of its existing capital strength.
- A reasonably strong company that maintains an extraordinarily large capital position relative to its business could achieve a higher rating than its profile may imply.
- The extent that over-capitalisation may improve a rating depends on RAM Ratings' opinion on whether such over-capitalisation is maintainable, especially if such over-capitalisation leads to relatively poor returns on capital.
- Except in extreme cases, over-capitalisation may improve a rating by not more than a couple of notches.

RATING DEFINITIONS

Responsibilities to its policyholders and contractholders are an insurer's most senior obligations. RAM Ratings' CPA rating only reflects the safety in relation to timely payment of policyholder and contractholder obligations. It does not refer to the ability of either the rated company or its affiliates, subsidiaries or parent in paying non-policy/contract obligations, such as debt or commercial papers.

The relative importance of various rating factors also changes as we move down the rating scale. For example, at the top end of the scale where financial viability is assumed to be secure, greater weight is given to characteristics such as competitive position, marketing expertise and franchise value. At lower rating levels where ongoing financial viability is the most significant concern, greater importance is placed on the extent of risk exposures and defensive characteristics. The following summarises RAM Ratings' formal definitions for various rating classes. An expanded practical definition of the rating scale is also included.

AAA

Formal definition: Insurance companies judged to be of the best quality and which offer the highest claims-paying ability.

Practical Definition: Industry leaders possessing superior business franchises, very strong and experienced management teams, very strong defensive characteristics, superior asset quality and manageable risk exposures. These insurers deliver very good and consistent profit returns, are managed conservatively, and face a very low probability of potential losses severely affecting their capital. Their strengths far outweigh any weaknesses and should continue to do so for the foreseeable future. Any weakness is considered immaterial.

The primary differences that typically distinguish AAA-rated companies from AA-rated ones are the perceived lack of any material risks that could negatively impact future operations, more diversification, a higher-quality business franchise, and better financial flexibility.

AA (i.e. AA₁, AA₂, AA₃)

Formal definition: Very high claims-paying ability. Protection factors are strong. Risk is low but may vary slightly over time due to underwriting and/or economic conditions.

Practical Definition: Companies which have a competitive advantage in one or more product lines derived from either leadership or niche positions, a quality management team with expertise in their chosen lines, strong asset quality and strong defensive characteristics relative to risk exposures. The management philosophy must not be overly aggressive. Strengths clearly outweigh weaknesses and should continue over the long run.

The primary differences between AA-rated insurers and A-rated ones are the perceived quality of their competitive advantages, the level of risk inherent in business fundamentals or reflected in their management philosophies, financial flexibility and management quality.

A (i.e. A₁, A₂, A₃)

Formal definition: High claims-paying ability. More susceptible to changes in underwriting and/or economic conditions than insurers in higher-rated categories.

Practical Definition: Companies that, on balance, exhibit reasonably strong financial profiles in terms of asset quality and earnings potential, but possess certain risks that are material. In some cases, this is due to an aggressive management philosophy, reflected in the willingness to be a risk-taker or having a concentrated product focus. In other cases, the weaknesses are less clear-cut and are due to the lack of a sustainable competitive advantage, or an inability to adequately respond to competition or other pressures. Usually, strengths outweigh weaknesses, although the potential of some deterioration in their risk profiles exists in the long term.

The primary differences between A-rated insurers and BBB-rated ones are the perceived depths of their risk exposures.

BBB (i.e. BBB₁, BBB₂, BBB₃)

Formal definition: Adequate claims-paying ability. Lacking in certain protective elements. Changes in underwriting and/or economic conditions are more likely to weaken capacity to meet policyholder obligations than insurers in higher-rated categories.

Practical Definition: Companies that either exhibit poor underwriting performance, have high risk profiles, inferior asset quality or below-average defensive characteristics, yet have offsetting strengths. On balance, their weaknesses equal their strengths.

The primary difference between BBB-rated insurers and BB-rated ones is any weakness that is severe enough to cast doubts on their solvency.

BB (i.e. BB₁, BB₂, BB₃)

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Formal definition: Claims-paying ability is uncertain and not well assured. Changes in underwriting and/or economic conditions are likely to substantially weaken capacity to meet policyholder obligations.

Practical Definition: Companies whose weaknesses outweigh their strengths, with solvency risk present yet where insolvency is not deemed likely. Insurers in this category are usually underperformers and have high-risk profiles. It is doubtful whether their defensive characteristics will be adequate to protect against external shocks.

B (i.e. B₁, B₂, B₃)

Formal definition: Poor claims-paying ability. Adverse underwriting or economic conditions would lead to lack of ability on the part of the insurer to meet policyholder obligations.

Practical Definition: Companies which may have high solvency risk, although not yet a certainty. These are usually weak insurers that have suffered large losses and where extreme action, such as major capital infusion, is needed to reverse the situation. In other cases, these insurers are solvent companies exposed to extreme risks that are likely to occur that could rapidly change their business and financial profiles.

C (i.e. C₁, C₂, C₃)

Formal definition: Very high risk that policyholder obligations will not be paid when due. Present factors cause claims-paying ability to be vulnerable to default. Timely payment of policyholder obligations possible only if favourable economic and underwriting conditions emerge.

Practical Definition: Companies that are expected to become insolvent in the near future. Nevertheless, positive and favourable economic conditions may stave off insolvency.

D

Formal definition: Insurance companies rated in this category are adjudged to be either currently in default or expected to be in default of policyholder obligations. Such a company is likely to come under regulatory action and will need immediate external support of a higher order to avoid receivership, liquidation or any other action that reflects regulatory concern about the insurer's financial condition.

Practical Definition: Companies that are already insolvent or which face the certainty of insolvency.

The Claims-Paying Ability (“CPA”) ratings are based on the same scale as that for RAM Ratings’ corporate debt securities ratings. However, the CPA rating scale for insurance companies uses different definitions of safety to reflect an insurance company’s ability to meet its obligations to policyholders, as opposed to the ability to service debt.

Obligations to policyholders and contractholders are an insurer’s most senior obligations. A CPA rating by RAM Ratings reflects only the safety in respect of timely payment of obligations to policyholders and contractholders. The rating is not intended to refer to the ability of either the rated company or its affiliates, subsidiaries, parent, etc, to pay obligations to non-policyholders or non-contractholders, such as debt or commercial papers.

CPA RATINGS

- AAA** Insurance companies rated AAA are judged to be of the best quality and offer the highest claims-paying ability.
- AA** High claims-paying ability. Protection factors are strong. Risk is low but may vary slightly over time, due to underwriting and/or economic conditions.
- A** Adequate claims-paying ability. More susceptible to changes in underwriting and/or economic conditions than insurers in higher-rated categories.
- BBB** Moderate claims-paying ability. Changes in underwriting and/or economic conditions are more likely to weaken capacity to meet obligations to policyholders, compared to insurers in higher-rated categories.
- BB** Claims-paying ability is uncertain and not well-assured. Changes in underwriting and/or economic conditions are likely to substantially weaken capacity to meet obligations to policyholders.
- B** Poor claims-paying ability. Adverse underwriting or economic conditions would lead to lack of ability on the part of the insurer to meet obligations to policyholders.
- C** Very high risk that obligations to policyholders will not be paid when due. Factors present cause claims-paying ability to be vulnerable to default. Timely payment of obligations to policyholders possible only if favourable underwriting and economic conditions emerge.
- D** Insurance companies rated in this category are either currently in default or expected to be in default of obligations to policyholders. Such companies are likely to come under regulatory action and will need immediate external support of a higher order to avoid receivership, liquidation or any other action that reflects regulatory concern about the companies’ financial conditions.

RAM Ratings applies The signs plus (+), flat and minus (-) in each rating category from AA to C. The signs plus (+) indicates that the insurer ranks at the higher end of its generic rating category; the sign flat indicates a mid-ranking; and the sign minus indicates that the insurer ranks at the lower end of its generic rating category.

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No statement in this methodology is to be construed as a recommendation to buy, sell or hold securities, or as investment advice, as it does not comment on the security's market price or suitability for any particular investor.

While every effort has been made to incorporate the salient points of RAM Ratings's experience in relation to the methodology, we note that the information contained could be updated and altered depending on changes in our internal views, market conditions, accounting practices and regulations. The methodology is also based on factors relevant to Malaysia and may require adaptation to local conditions.

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