

FANAF Panel 5, Marrakech

Credit Rating Considerations – Impact on long-term development and investment

William Mills

**Director, Market Development
A.M. Best – EMEA**

15 February 2017



Disclaimer



© AM Best Company (AMB) and/or its licensors and affiliates. All rights reserved. ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY COPYRIGHT LAW AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT AMB's PRIOR WRITTEN CONSENT. All information contained herein is obtained by AMB from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. Under no circumstances shall AMB have any liability to any person or entity for (a) any loss or damage in whole or in part caused by, resulting from, or relating to, any error (negligent or otherwise) or other circumstance or contingency within or outside the control of AMB or any of its directors, officers, employees or agents in connection with the procurement, collection, compilation, analysis, interpretation, communication, publication or delivery of any such information, or (b) any direct, indirect, special, consequential, compensatory or incidental damages whatsoever (including without limitation, lost profits), even if AMB is advised in advance of the possibility of such damages, resulting from the use of or inability to use, any such information. The credit ratings, financial reporting analysis, projections, and other observations, if any, constituting part of the information contained herein are, and must be construed solely as, statements of opinion and not statements of fact or recommendations to purchase, sell or hold any securities, insurance policies, contracts or any other financial obligations, nor does it address the suitability of any particular financial obligation for a specific purpose or purchaser. Credit risk is the risk that an entity may not meet its contractual, financial obligations as they come due. Credit ratings do not address any other risk, including but not limited to, liquidity risk, market value risk or price volatility of rated securities. NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY AMB IN ANY FORM OR MANNER WHATSOEVER. Each credit rating or other opinion must be weighed solely as one factor in any investment or purchasing decision made by or on behalf of any user of the information contained herein, and each such user must accordingly make its own study and evaluation of each security or other financial obligation and of each issuer and guarantor of, and each provider of credit support for, each security or other financial obligation that it may consider purchasing, holding or selling.

Please note that due to regulatory restrictions Market Development employees are unable to have any role in the determination of credit ratings or the development or modification of rating procedures or methodologies. Consequently they are unable to discuss any matters relating to the analytical process as applied to your firm or to provide any feedback on your behalf in respect of the rating procedures or methodologies.

1. Brief introduction to A.M. Best

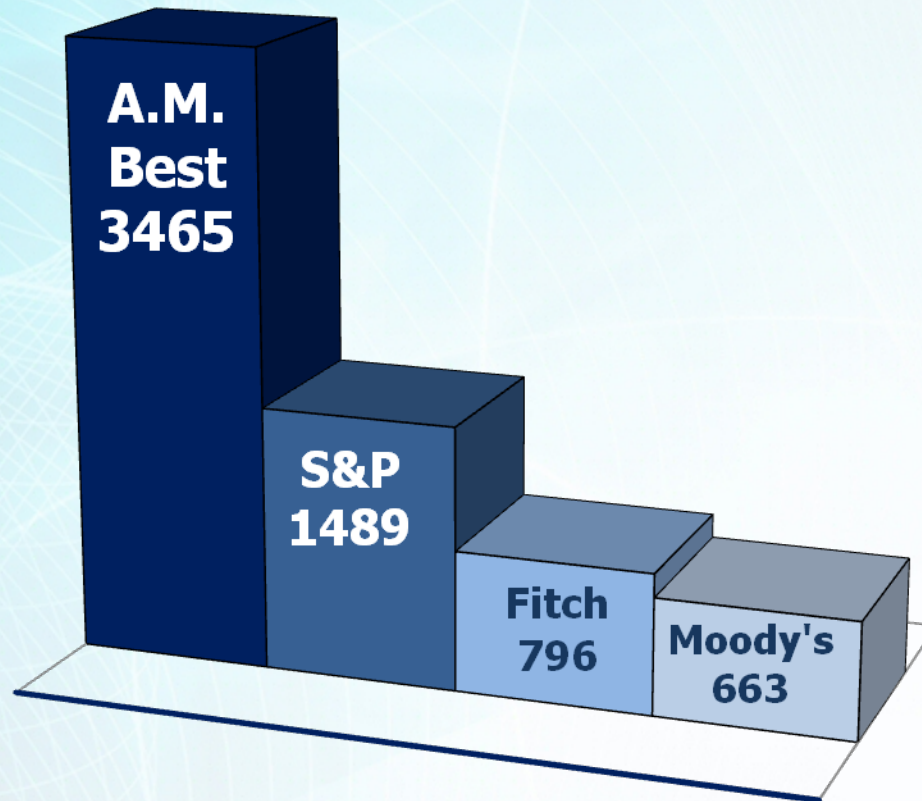
PART I

2. Ratings in mature and emerging markets
3. Impact of ratings on long-term market development
4. A.M. Best's contribution to market stability
5. Conclusions

Leading coverage in insurance ratings



Global insurer interactive Financial Strength Ratings (FSRs)



Source: A.M. Best, Moody's and Fitch's websites and S&P's Global Credit Portal. Data as of June 2016. Does not include PD ratings, NR ratings, "National" ratings, rated companies who are branches of a parent (Canada, Japan, New Zealand and U.S.), or companies who are under regulatory supervision or in liquidation.

Global presence of A.M. Best



Agenda



1. Brief introduction to A.M. Best

PART I

2. Ratings in mature and emerging markets

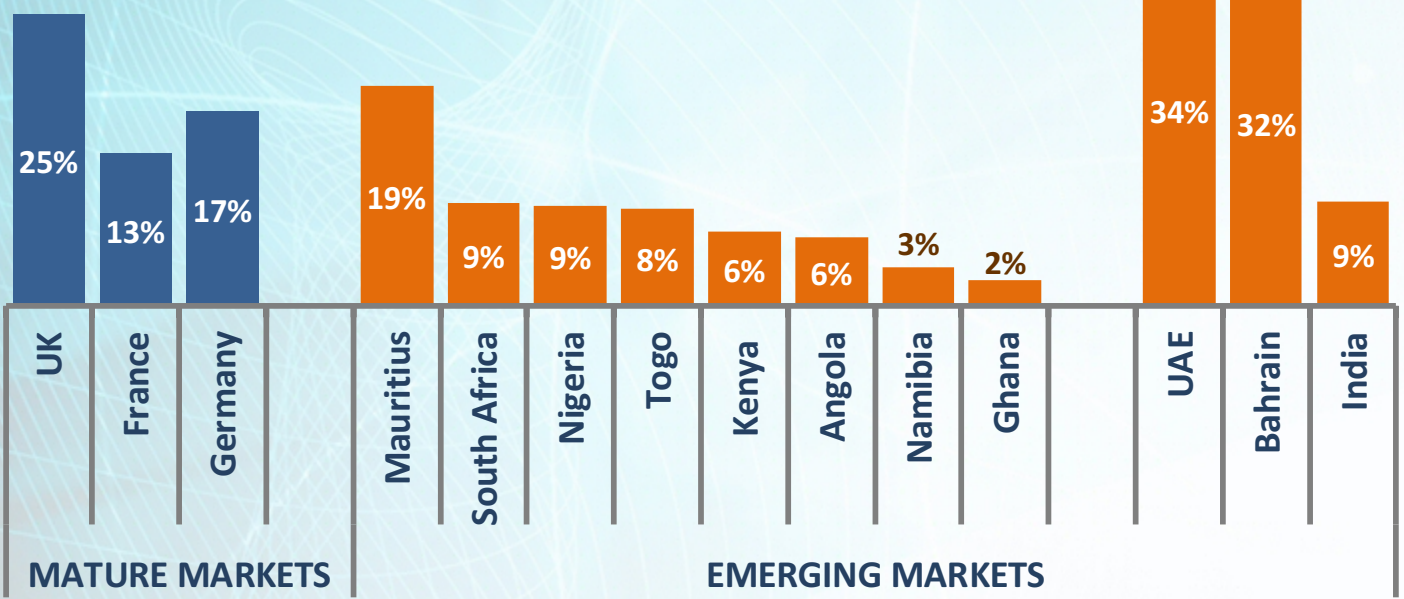
3. A.M. Best's contribution to market stability

4. Conclusions

Understanding the dynamics of the ratings market



Ratings Penetration (% of insurers rated)



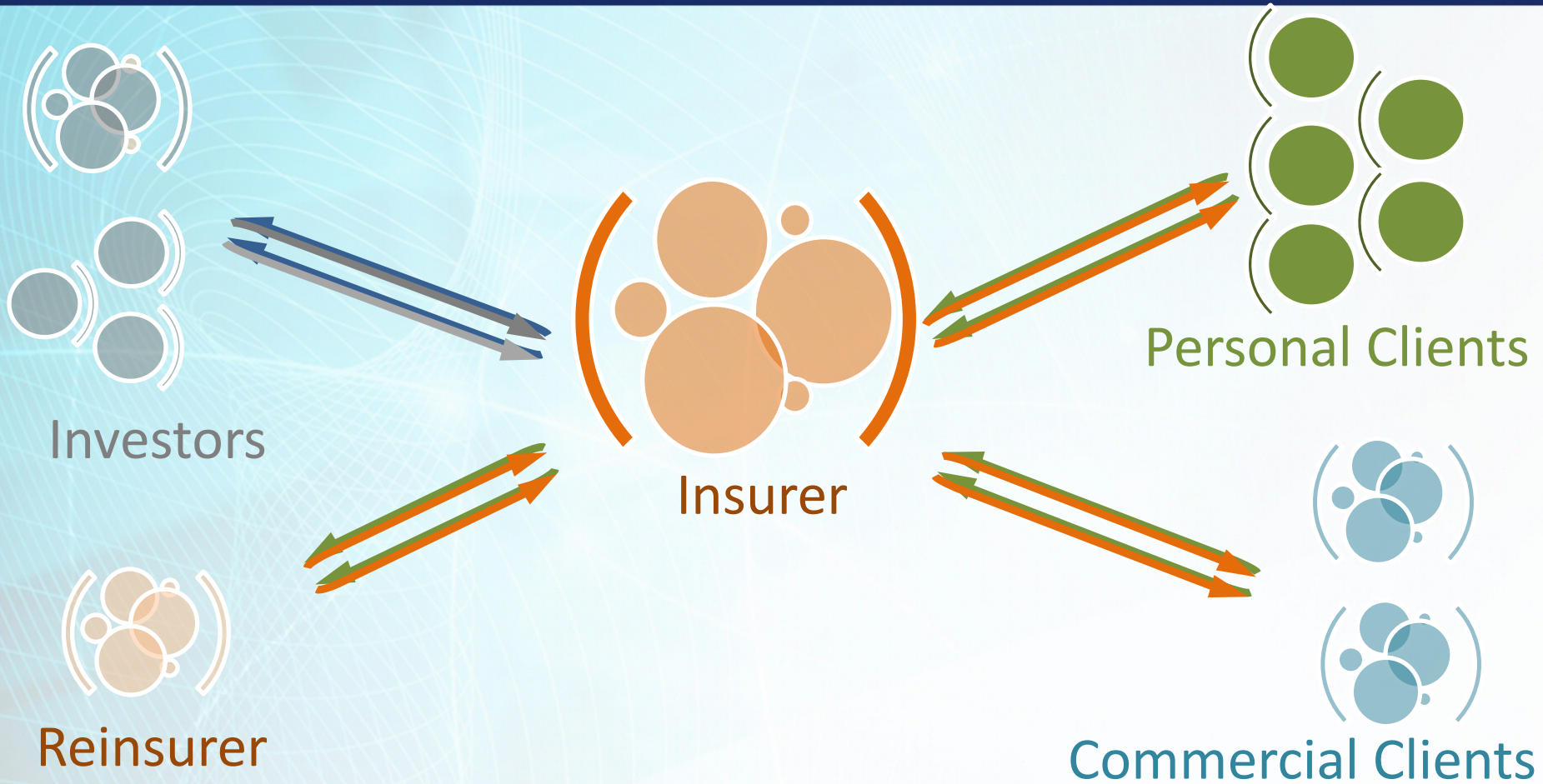
- Penetration of ratings varies from market to market
- It is not always that mature markets have higher penetration of ratings



- Need to understand the key drivers for ratings demand

Source: A.M. Best, Moody's and Fitch's websites and S&P's Ratings Direct. Data as of May 2016

Key stakeholders in insurance model



All stakeholders depend on insurer's continuing ability to pay claims (FSR)

Drivers of ratings demand

3 Debt issuance

Mature ✓

Emerging ✗

1 Reinsurer impairment

Mature ✓

Emerging ✓



Insurer

4 Personal lines

Mature ✗

Emerging ✓

2 Commercial risks

Mature ✓

Emerging ✓

MATURE markets

- Ratings as tools for **financial flexibility** and access to **attractive international business**
- Little visibility to and limited awareness of ratings by the public

EMERGING markets

- Ratings as tools for **financial flexibility** and access to **attractive international business**
- In some markets there is increasing visibility to consumers

Agenda



1. Brief introduction to A.M. Best

PART I

2. Ratings in mature and emerging markets

- 3. A.M. Best's contribution to market stability**

4. Conclusions

A.M. Best Insurance ratings not capped by sovereign ratings



We have a different view from that of our competitors on how to assess the risks for an insurer associated with operating in its “home” territory ...

We determine **Country Risk, defined as:**

The risk that country-specific factors could adversely affect an insurer’s ability to pay its financial obligations

... and based on measures of:

- Economic Risk
- Political Risk
- Financial System Risk

Distinct from

Sovereign Default Risk: *Probability that a sovereign government does not pay back its debts on time and in their entirety ... **usually imposes a ceiling on insurance company ratings issued by competitor rating agencies***

Country risk tiers (CRT) in Africa and Asia



		Africa	Asia
Country Risk	High		
	CRT-1		Singapore
	CRT-2		Taiwan Hong-Kong Japan South Korea
	CRT-3	South Africa	China Kuwait Malaysia Qatar Saudi Arabia Thailand UAE
	CRT-4	Mauritius Morocco Tunisia	Azerbaijan Bahrain India Indonesia Philippines Sri Lanka Vietnam
Low	CRT-5	Algeria Egypt Gabon Ghana Kenya Lybia Nigeria Togo	Bhutan Lebanon Mongolia Pakistan Uzbekistan

Distribution - Financial Strength Rating and Country Risk Tier



Best's Financial Strength Rating	Country Risk Tier				
	1	2	3	4	5
A++	8%	9%	2%	2%	
A+	17%	15%	3%		
A	54%	34%	26%	13%	15%
A-	19%	29%	45%	22%	7%
B++	3%	9%	18%	37%	19%
B+		2%	4%	19%	33%
B		1%	2%	2%	22%
B-				3%	4%

Sample (total / each tier): 481

150

137

104

63

27

Excludes United States, Canada and Bermuda. A.M. Best data as at September 2015

Note: Percentage figures are based on Country Risk Tiers, and may not add to 100% due to rounding

A.M. Best ICR ratings relative to S&P sovereign rating



AFRICA

EGYPT		B-
Arab Misr	bbb-	Stable
Misr Insurance	bbb-	Stable
Misr Life	bbb-	Stable

GHANA		B-
Ghana Re	bb	Stable

KENYA		B+
East Africa Re	bb+	Stable
Kenya Re	bbb-	Negative

MOROCCO		BBB-
SCR	bbb	Stable

NIGERIA		B
Africa Re	a	Stable
AXA Mansard	bbb-	Positive
Continental Re	bbb-	Stable
Custodian and Allied	bb	Positive
Wapic	b+	Stable

MIDDLE EAST

BAHRAIN		BB-
ACR Retakaful	bbb+	Negative
ARIG	a-	Stable
BKIC	a-	Stable
Bahrain National	bbb+	Stable
SAICO	a-	Stable
Solidarity	bbb	Positive
Trust Re	a-	Stable

JORDAN		BB-
Arab Orient	bbb+	Stable
ARABIA	bbb-	Stable
First Insurance	bbb	Positive
Jordan Insurance	bbb+	Negative
Jordan International	bbb-	Stable
Middle East Insurance	bbb-	Stable

THE SUBCONTINENT

INDIA		BBB-
GIC	a-	Stable
National Insurance	bbb+	Stable
New India	a-	Stable
Oriental Insurance	bbb+	Stable
United India	bbb+	Negative

PAKISTAN		B
Adamjee	bbb-	Stable
Jubilee	bbb-	Stable

The absence of a “rating cap” means that insurers can obtain ratings several notches above the sovereign under A.M. Best methodology

Ratings as of 3 February 2017

Agenda



1. Brief introduction to A.M. Best

PART I

2. Ratings in mature and emerging markets

3. A.M. Best's contribution to market stability

4. Conclusions

Conclusions 1/2



- The drivers for demand of ratings differ between mature and emerging markets
- Ratings are a good indicator of the financial strength of insurers assisting in:
 - building consumer confidence
 - evaluating (re)insurer counterparty risk
 - regulatory assessment of insurers

Conclusions 2/2



A.M. Best's Ratings...

... foster a transparent and open business environment

... encourage greater corporate accountability

... are a valued *independent* source of detailed and comparable information

... leading to stronger and healthier insurance markets

Agenda



1. Brief introduction to A.M. Best

PART I

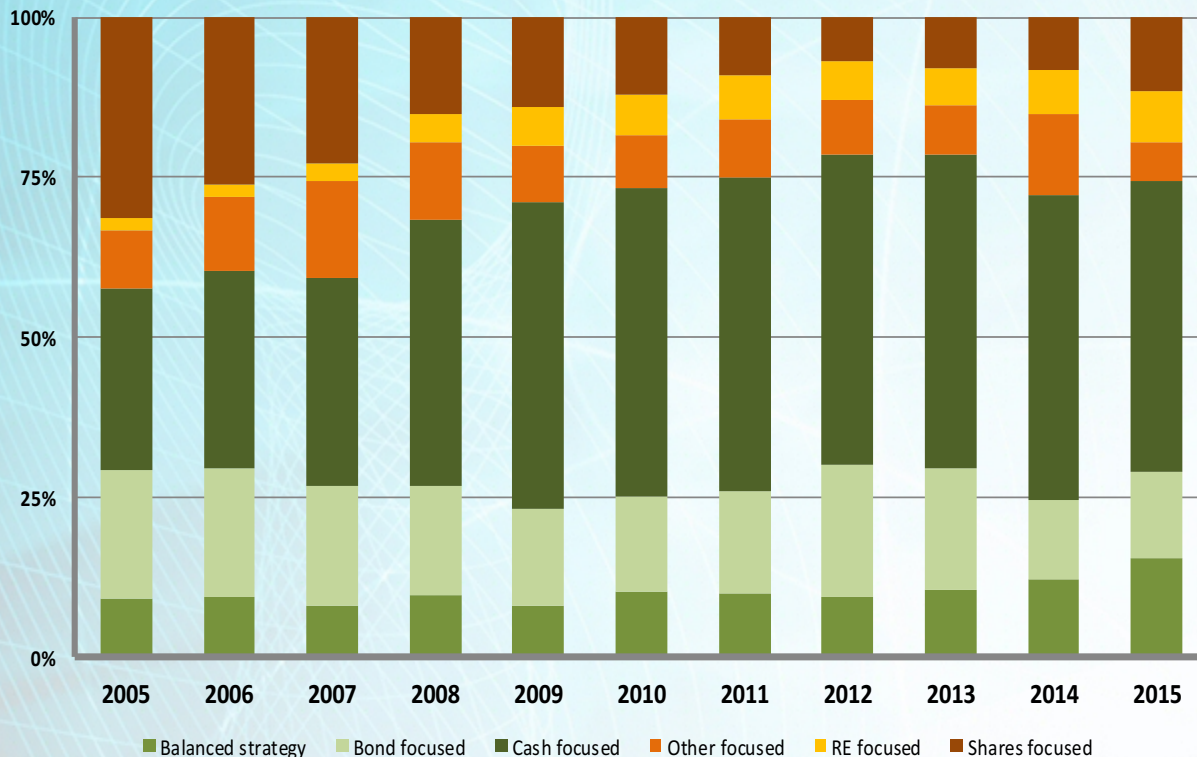
2. Ratings in mature and emerging markets
3. A.M. Best's contribution to market stability
4. Conclusions

PART II

5. Investments

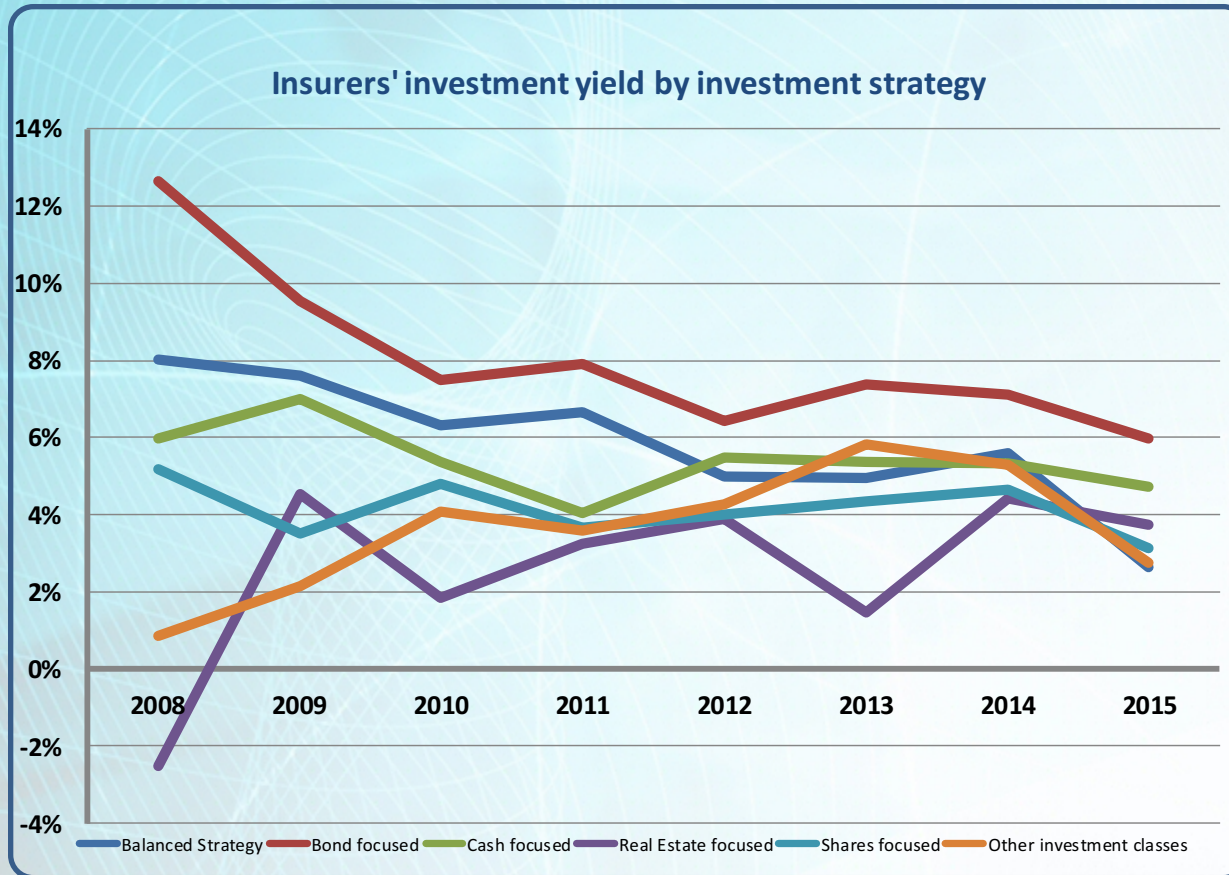
De-risking of investment strategies

MENA companies by investment strategy



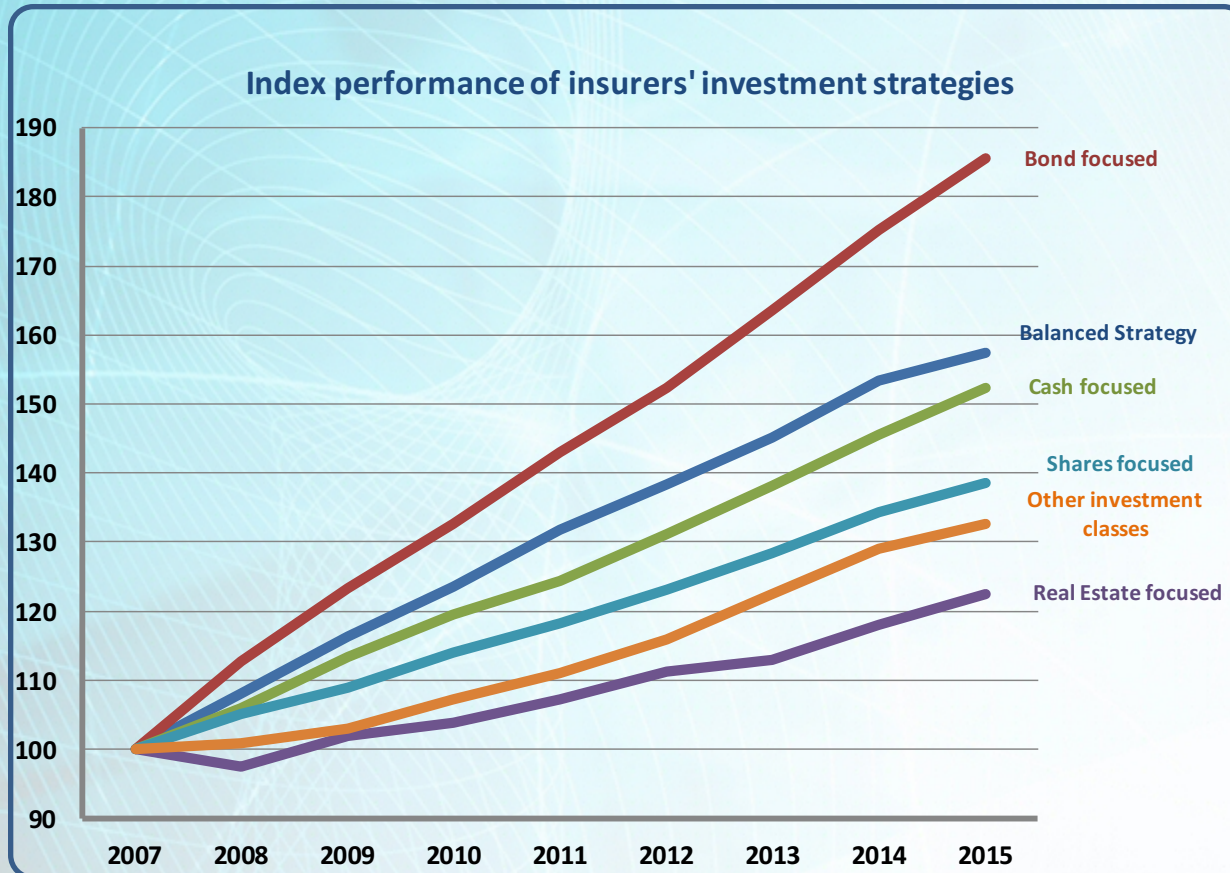
- MENA companies have shifted towards cash and away from equity focused investments
- Real estate and share based strategies are making a return
- Market overall seems to take less risk through investments than it did 10 years ago
- However, there are questionable valuation practices which may hide a larger exposure to some asset classes

Investment strategies: risk but no reward?



- Companies with “bond focused” strategies have consistently the highest investment yields
- Companies focused on real estate experienced negative yields during financial crisis
- Not clear that increased risk is rewarded by results

Are investment strategies based on facts or preferences?



- Companies with bond focused strategies have the highest yields
- However, few countries in the region have bond markets able to cater for the insurers' needs
- Strategies focused on shares and real estate and "other" asset classes have the lowest yields
- Questionable valuation practices may have artificially inflated the yields from real estate assets

Investment charges in Best's Capital Adequacy Ratio (BCAR)



The current Best's Capital Adequacy Ratio (BCAR) applies the following summarised risk charges to investments to be added to required capital:

Bonds: according to Global Credit Rating Agency (CRA) ratings from 0.2% to 10%

Common Stock: 15%

Real Estate: owner occupied 10%; investment 20%

Country Investment Class 1-5 are incorporated in the Capital Model to capture market illiquidity and volatility which increase risk within an insurer's invested assets

Contact us...



Global Headquarters:	Corporate Offices:			
<i>America (& Regional Centre)</i>	<i>Europe, Middle East & Africa (Regional Centre)</i>	<i>Asia-Pacific (Regional Centres)</i>	<i>Latin America (Regional Centre)</i>	<i>MENA, South & Central Asia (Representative Office)</i>
<p>A.M. Best Company, Inc. Ambest Road Oldwick, NJ 08858 United States Phone: +1 (908) 439-2200 Fax: (908) 439-3385 ratings@ambest.com</p>	<p>A.M. Best Europe – Rating Services Ltd. A.M. Best Europe – Information Services Ltd. 6th Floor, 12 Arthur Street London, EC4R 9AB United Kingdom Phone: +44 (0)20 7626 6264 Fax: +44 (0)20 7626 6265 europe.ratings@ambest.com</p>	<p>A.M. Best Asia-Pacific Ltd. Unit 4004 Central Plaza 18 Harbour Road Wanchai, Hong Kong Phone: +852-2827-3400 Fax: +852-2877-0781 asia.ratings@ambest.com</p> <p>A.M. Best Asia-Pacific (Singapore) Pte. Ltd. 6 Battery Road, #40-02B, Singapore 049909 Tel: +65-6589-8400 Fax: +65-6221-0134 asia.ratings@ambest.com</p>	<p>A.M. Best América Latina Paseo de la Reforma 412, Piso 23 Col. Juárez, Del. Cuauhtémoc México D.F. 0660</p>	<p>A.M. Best – MENA, South & Central Asia* Office 102, Tower 2 Currency House, DIFC PO Box 506617 Dubai, UAE Phone: +971 (0) 4375 2780 Fax: +971 (0) 4431 3485 emea.ratings@ambest.com</p> <p><small>*Regulated by the DFSA as a Representative Office</small></p>

FANAF Panel 5, Marrakech

Credit Rating Considerations – Impact on long-term development and investment

William Mills

**Director, Market Development
A.M. Best – EMEA**

15 February 2017

