

# AM BEST

## **Captives & Cell Companies: Revisions to 'Alternative Risk Transfer (ART)' Criteria**

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AM Best Market Briefing Webinar

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# Disclaimer

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# Examples of AM Best's Ratings of Captives Domiciled in Europe (as at 21 January 2025)

Captive Name	Domicile	Parent's Sector	Financial Strength Rating	Issuer Credit Rating	Parent – Sponsor
Delvag Versicherungs-AG	Germany	Aviation	A	a	Deutsche Lufthansa Aktiengesellschaft
Enel Reinsurance - Compagnia di Riassicurazione	Italy	Energy	A-	a-	Enel S.p.A.
Eni Insurance Designated Activity Co	Ireland	Energy	A	a	Eni S.p.A.
GreenStars BNP Paribas S.A.	Luxembourg	Banking	A	a+	BNP Paribas
Greenval Insurance Co. DAC	Ireland	Banking	A-	a-	BNP Paribas
Jacana Re Ltd	Guernsey	Various	A	a	BHL Holdings Ltd
Jupiter Insurance Ltd	Guernsey	Energy	A	a	B.P p.l.c
Kot Insurance Company AG	Switzerland	Energy	B++	bbb	Pemex (Petróleos Mexicanos)
National Grid Insurance Co (Isle of Man) Ltd	Isle of Man	Energy	A-	a-	National Grid plc
Nova Casiopea Re S.A.	Luxembourg	Telecommunications	A-	a-	Telefonica S A
Ørsted Insurance A/S	Denmark	Energy	A-	a-	Ørsted A/S
Sigurd Rück AG	Switzerland	Energy	A-	a-	Saipem S.p.A.
Solen Versicherungen AG	Switzerland	Energy	A	a+	Shell plc
Stonefort Reinsurance S.A.	Luxembourg	Construction	A-	a-	ACS, Actividades de Construcción y Servicios, S.A.

# Speakers

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**Mathilde Jakobsen**  
**Senior Director, Analytics, Amsterdam - AM Best**

Mathilde Jakobsen is senior director, analytics at AM Best based in Amsterdam since 2019. She manages a team of financial analysts responsible for rating European insurers and reinsurers. She is a contributing author on various AM Best research reports, with recent publications focused on life and non-life reinsurance, trade credit risk, and European captives among other topics.

Mathilde joined AM Best in 2008 as an analyst in the UK non-life and London market ratings team.

Before joining AM Best, Mathilde worked as an analyst at Datamonitor, where she researched and reported on the UK non-life insurance market. Mathilde holds doctoral and master's degrees in philosophy from University College London.



**Myles Gould**  
**Senior Director, Credit Rating Criteria Research & Analytics - AM Best**

Myles Gould is senior director, credit rating criteria research & analytics at AM Best based in London. He serves as a lead criteria contact for AM Best's international (ex-US) offices.

Previously, Myles held various positions in AM Best's analytics division in both London and Singapore. This includes the role of head of analytics at AM Best in Singapore, where he was responsible for ratings across South East Asia, Australia and New Zealand. Myles first joined AM Best in 2013 as part of the analytics team in London, with ratings coverage including the UK, Europe and the Middle East.

Before joining AM Best, Myles spent three years working for Willis Towers Watson in the global market security division based in the UK. Myles holds a bachelor's degree in business management from the University of Suffolk.

# Agenda

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- Background
- Recap on AM Best's Rating Process
- Focus on Single Parent Captives
- Focus on Cell Company Structures
- Call for Comment on ART Criteria & Next Steps
- Q&A

# Background

# Alternative Risk Transfer

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- The Alternative Risk Transfer (ART) criteria is a specialty criteria used in conjunction with Best's Credit Rating Methodology (BCRM)
- Criteria is applied when rating:
  - Single parent (and pure) captives
  - Group captives
  - Risk retention groups
  - Self-insurance funds
  - Cell companies
- AM Best is proposing material revisions to this criteria and is currently out for comment from industry participants and other interested parties on the draft criteria update
- Call for Comment period opened on December 2, 2024 and closes on February 20, 2025



# Alternative Risk Transfer

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The proposed material revisions to the ART criteria include the following:

- A new criteria name “Rating Captives and Other Alternative Risk Transfer Entities”
  - Ensures focus of the criteria for its most frequent use – captive companies
  - Aligns with naming structure of other AM Best specialty criteria
- Update to approach for rating protected cell company structures
  - Expansion of nomenclature to cover different structures
  - Distinct approaches for unincorporated and incorporated cell companies
- Refinement on criteria language regarding
  - Letter of Credits
  - Parent / Holding Company Assessment
  - Operating Performance
  - Single Parent Captive - Business Profile and ERM

# Alternative Risk Transfer

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- Proposed revisions to the criteria are not expected to lead to rating changes for current rated entities
  - No fundamental change in approach to rating single parent (and pure) captives, where this criteria is most commonly used
  - Proposed revisions focus on ratings for cell company structures and clarifying language in other areas of the criteria

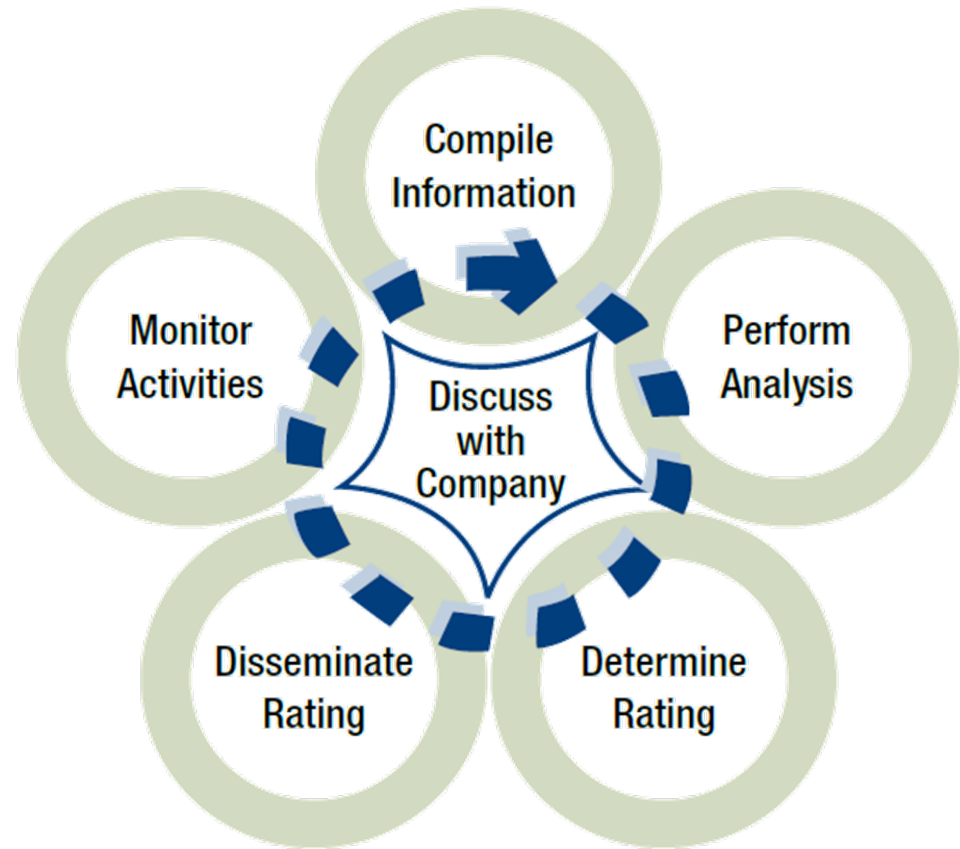
# Re-cap on AM Best's Rating Process



# Interactive Rating Process

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- The rating process starts with an in-depth meeting with senior management
- Ratings are determined by committee – by majority vote



# AM Best's Ratings

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## **Financial Strength Rating (FSR)**

An independent opinion of an insurer's financial strength and ability to meet its ongoing insurance policy and contract obligations

## **Long-term Issuer Credit Rating (Long-term ICR)**

An independent opinion of an entity's ability to meet its ongoing senior financial obligations

# Rating Translation Table

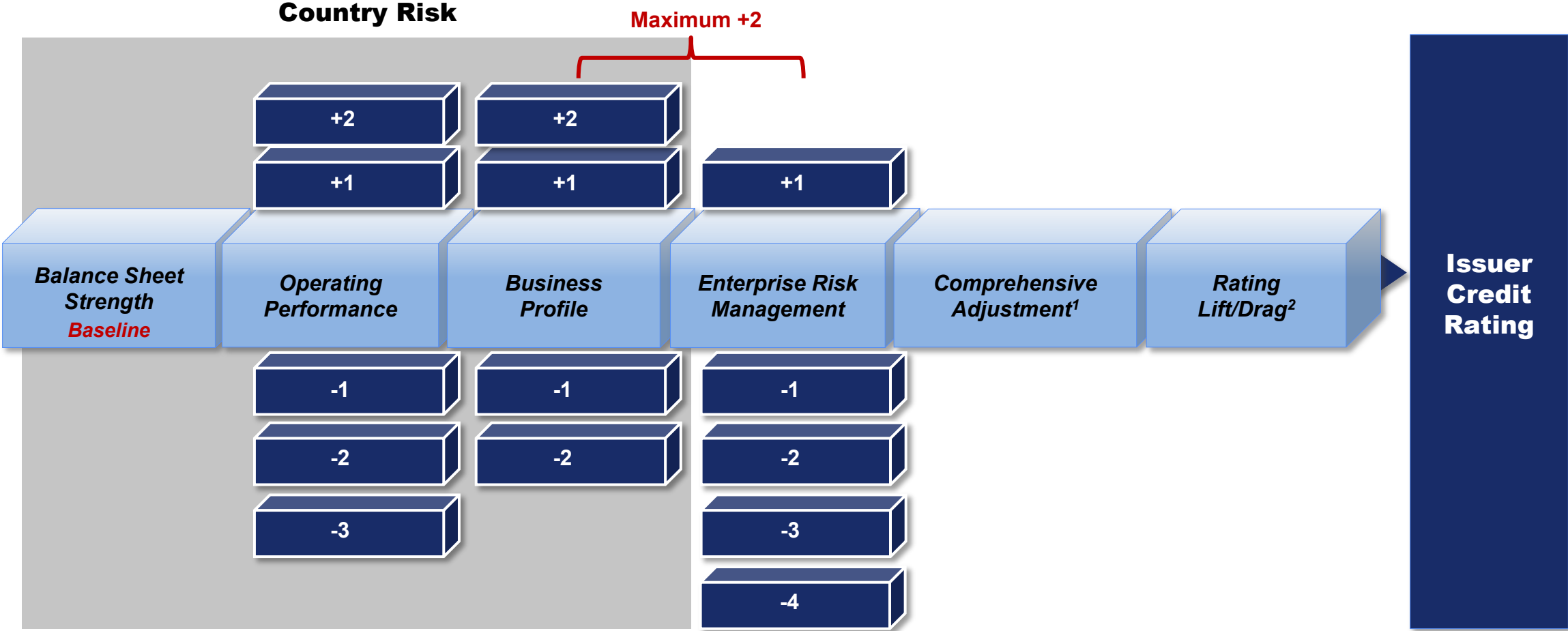
Long-Term ICR	FSR
aaa aa+	A++
aa aa-	A+
a+ a	A
a-	A-
bbb+ bbb	B++
bbb-	B+

Long-Term ICR	FSR
bb+ bb	B
bb-	B-
b+ b	C++
b-	C+
ccc+ ccc	C
ccc- cc	C-

Note: Scales E to NR not shown

The rating symbols A++, A+, A, A-, B++, B+ are registered certification marks of AM Best Rating Services, Inc.

# Building Block Approach



Notes:  
 1: A comprehensive adjustment can be applied of + 1 or - 1 for creditworthiness not captured elsewhere  
 2: Lift/drag applies to assessment of non-lead rating units in relation to the broader organisation leading to typical lift/drag of +4 to -4

# Focus on Single Parent Captives





# Balance Sheet Strength Assessment



## Draft Criteria Update: Rating Captives and Other Alternative Risk Transfer Entities

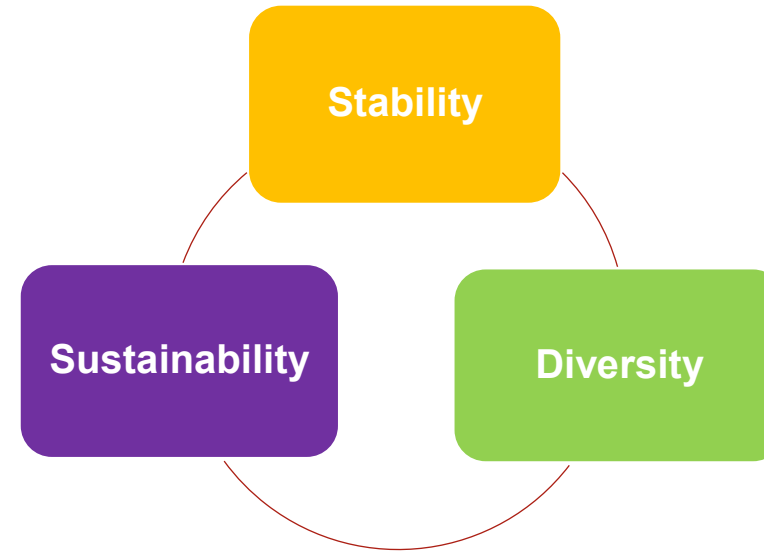
### Requirements for LOCs

- Standalone
- Evergreen
- Irrevocable
- Drawn on a highly rated bank

### Parent / Holding Company analysis

- For ART entities with a non-insurance ultimate parent, the impact is captured in the rating lift/drag assessment.
- For ART entities with an ultimate parent that is considered an Insurance Holding Company (IHC), the impact will be captured as part of the balance sheet strength assessment.

# Operating Performance Assessment



## Draft Criteria Update: Rating Captives and Other Alternative Risk Transfer Entities

### Operating performance assessment reflects consideration of a variety of quantitative and qualitative measures

- In general, more diversity in earnings streams leads to greater stability in operating performance.
- Operating performance volatility is evaluated in the context of the ART entity's purpose/strategy.
- Profitability metrics considered over the longer term, recognizing the potential of occasional outsized losses that may arise for some ART entities.

# Business Profile Assessment



## Draft Criteria Update: Rating Captives and Other Alternative Risk Transfer Entities

### Captive focused considerations

- The captive’s relationship as a policy issuer to its insured parent is recognized as inherently favourable when evaluating market position, degree of degree of competition and control of distribution.
- Value creation through reduced insurance cost for parent versus purchasing from the commercial market.
- A single parent captive’s business profile may be constrained by concentrations in policyholder(s), products, lines of business and geography.

# Enterprise Risk Management (ERM) Assessment

## Holistic evaluation of ERM

- Assessment of the risk management framework and the insurer's risk management capability relative to its risk profile

## Risk Impact Worksheet

- Part I: Framework Evaluation
- Part II: Risk Evaluation
- Part III: Overall ERM Assessment

## Assessment of Capabilities Relative to Profile

Product and Underwriting Risk

Reserving risk

Concentration risk

Reinsurance risk

Investment risk

Legislative/Regulatory/Judicial/Economic risk

Operational risk

Liquidity and capital management risk

## Draft Criteria Update: Rating Captives and Other Alternative Risk Transfer Entities

### Assessment of the risk management framework and the risk management capability relative to its risk profile

- The ERM of single parent captives is typically an extension of their parents' ERM.
- Captives are normally formed for efficient risk mitigation and management by the corporate parent, and fully integrated with the parent's ERM operations.
- Single parent captives reflect the parent's knowledge of its own risk and losses and acceptance of its risk tolerance and appetite.

# Lift/Drag Assessment

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## Draft Criteria Update: Rating Captives and Other Alternative Risk Transfer Entities

- For ART entities with a non-insurance ultimate parent, the impact is captured in the rating lift/drag assessment.
- For ART entities with an ultimate parent that is considered an Insurance Holding Company (IHC), the impact will be captured as part of the balance sheet strength assessment.

### Parent / Holding Company Analysis

Credit profile of the parent

Importance of the ART entity to the parent

History of capital support or explicit support in place

# Focus on Cell Company Structures



# Cell Company Structures

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- Draft criteria update seeks to advance the naming conventions/definitions of cell companies, reflecting the various cell structures used in the market
- Replace protected cell company (PCC) with a variety of terms to reflect market participants
  - Incorporated cell (IC)
  - Incorporated cell company (ICC)
  - Unincorporated cell (UC)
  - Unincorporated cell company (UCC)
  - Mixed cell company (MCC)

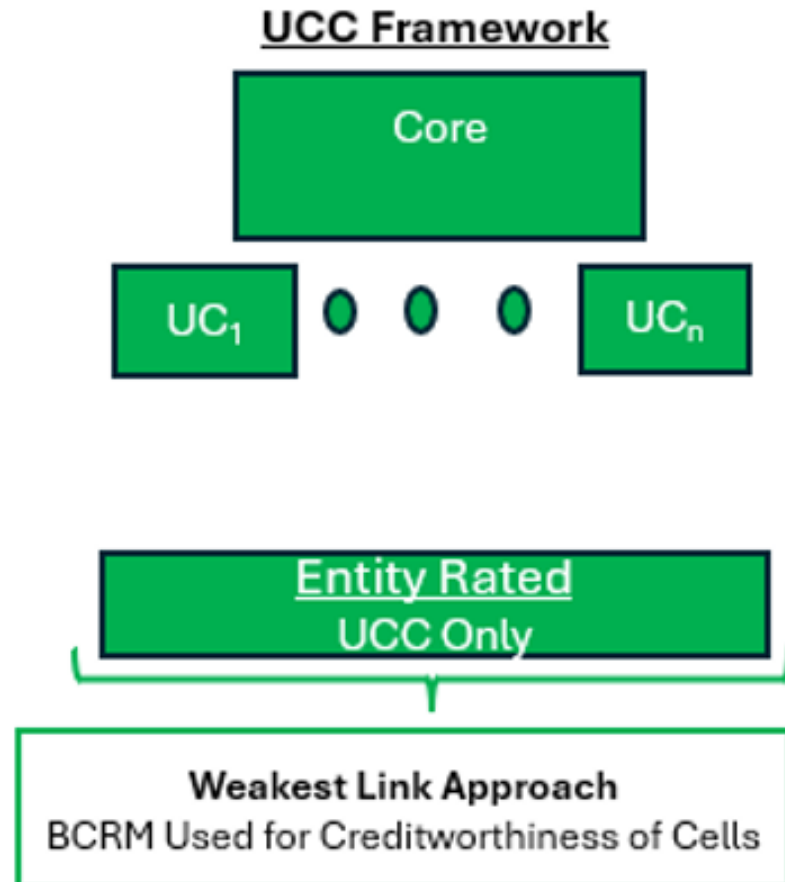
# Cell Company Structures – Cont.

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- An incorporated cell company (ICC) is a company composed of a number of individual cells, each of which is a separate incorporated legal entity. Each individual incorporated cell (IC) can hold its own insurance license, issue policies, and enter into transactions with third parties
- An unincorporated cell company (UCC) is composed of a number of individual cells. In this case, only the UCC is an incorporated legal entity, and the individual unincorporated cells (UC) may not be considered separate legal entities. The individual UCs are unlikely to be independently licensed and therefore insurance policies are issued by the UCC on behalf of the individual UCs
- A mixed cell company (MCC) is composed of both ICs and UCs

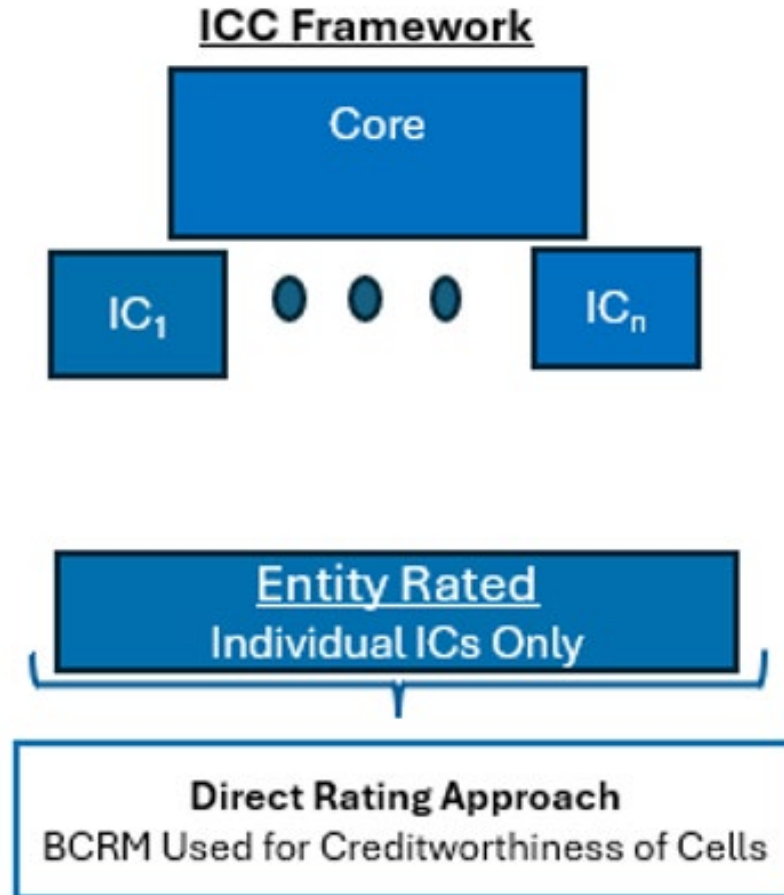


# Unincorporated Cell Company (UCC)



- Only the UCC as a whole is a licensed and incorporated legal entity
- Only the UCC as a whole can be assigned a rating
- The UCC is rated by analyzing each of its cells and applying the weakest link approach

# Incorporated Cell Company (ICC)

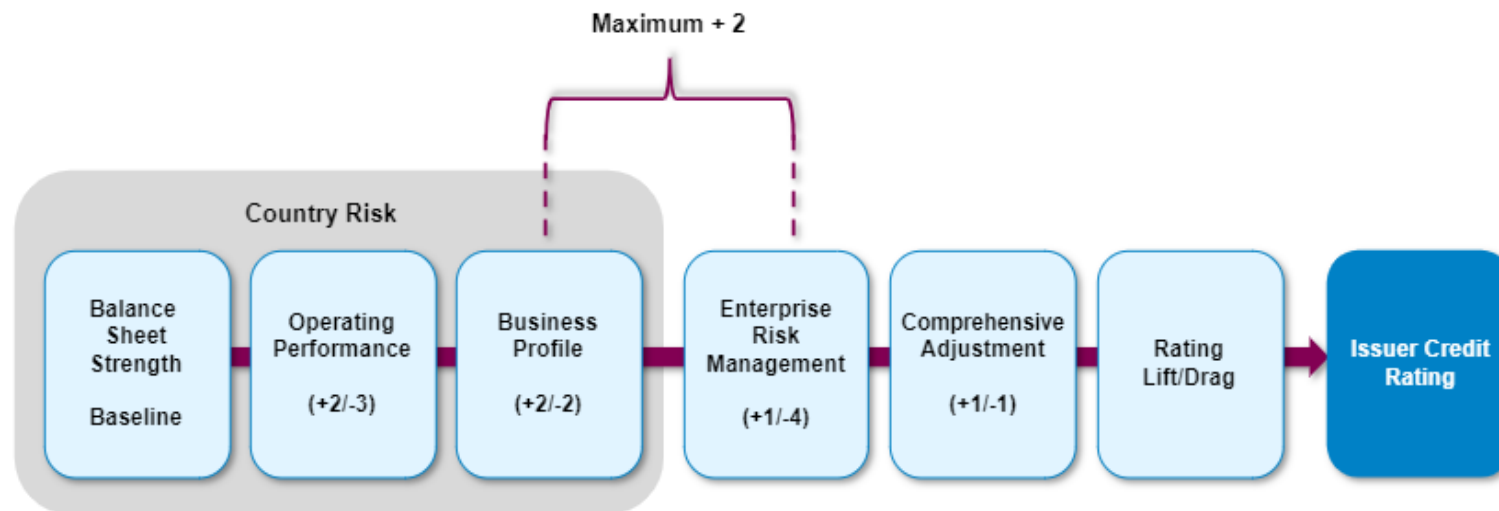


- Ratings can be assigned to one or more IC where authority has been granted to the IC by an insurance regulator to provide insurance contracts
- Third party legal reviews may be used to ensure requirements are met

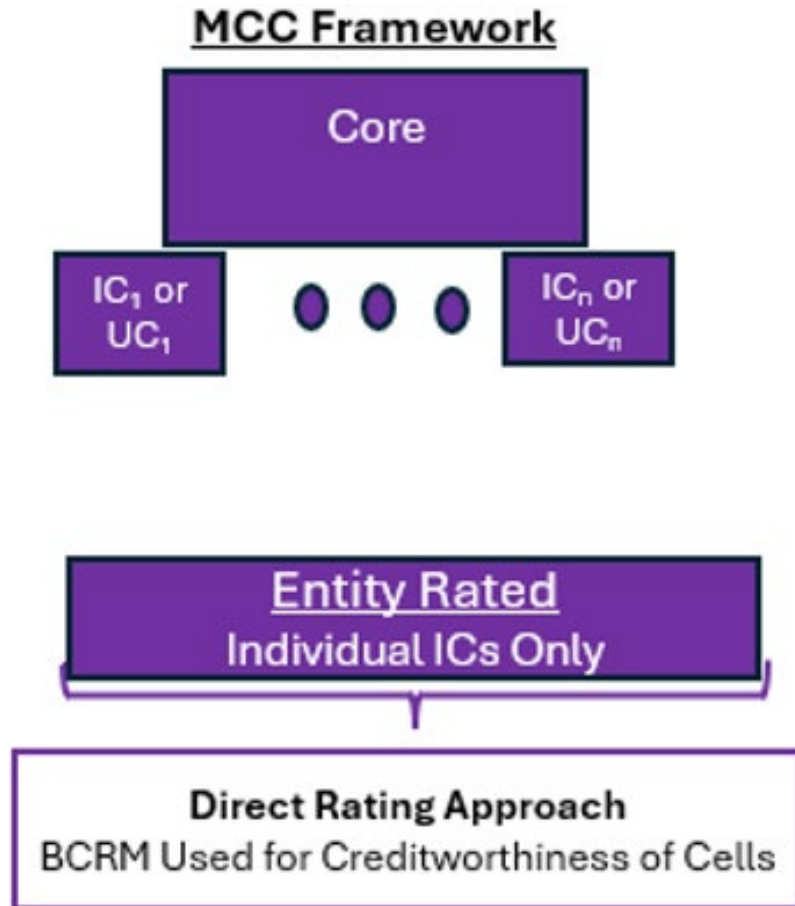
# Incorporated Cell Company (ICC) – Cont.

- If AM Best determines that an IC can be rated, this will be achieved through the usual BCRM building block approach
- The weakest link principle will not apply
- However, any reliance on the ICC, e.g. for management or administrative support will be taken into account

## BCRM – Building Block Assessments



# Mixed Cell Company (MCC)



- Ratings can be assigned to one or more IC where authority has been granted to the IC by an insurance regulator to provide insurance contracts
- Third party legal reviews may be used to ensure requirements are met

# Cell Company Data Requests

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As part of the proposed criteria update, an appendix has been added to highlight cell company data requests, as follows:

- Audited financial report for the CC and any ICs
- Key documents and agreements
- Business plan and formation documents
- Licenses
- (Re)insurance policies
- Capital maintenance agreements and pooling agreements
- Cell management agreements
- Shareholder or subscription agreements
- Any other agreements between the cells or between cells and the core
- Gross and net PMLs for each cell

# Call for Comment on ART Criteria

# Call for Comment – Draft ART criteria

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- The draft criteria is available at <https://web.ambest.com/ratings-services/rating-methodologies>
- Market participants in the insurance industry and other interested external parties are invited to share their comments on the proposed revisions to the 'Alternative Risk Transfer (ART)' Criteria
- Written comments should be submitted by e-mail to one of the following email addresses based on your privacy selection:
  - To allow your comment to be made public, including your contact information, please email [Methodology.Public@ambest.com](mailto:Methodology.Public@ambest.com)
  - To allow your comment to be made public, but keep your contact information anonymous, please email [Methodology.Anonymous@ambest.com](mailto:Methodology.Anonymous@ambest.com)
  - To not publish your contact information or comments and keep all information confidential, please email [Methodology.Private@ambest.com](mailto:Methodology.Private@ambest.com)

# Q&A



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