



# **Introduction to Best's Credit Rating Methodology – (BCRM)**

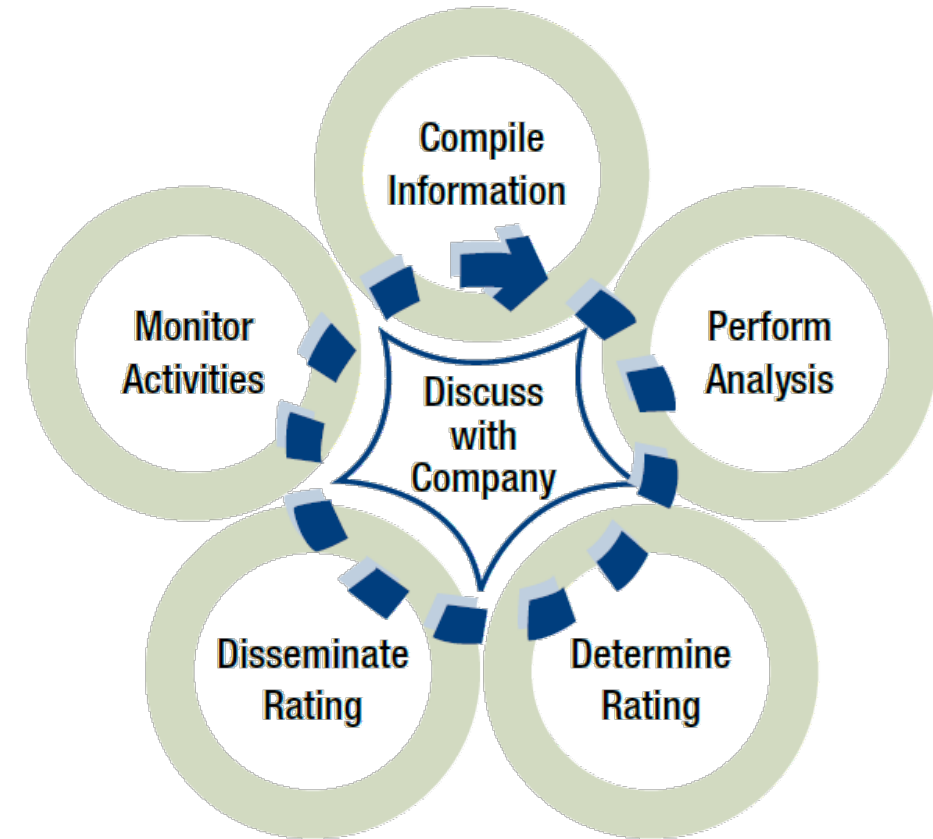
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**11<sup>th</sup> November 2024**

**AM Best Insurance Market Briefing – New Zealand**

# The Interactive Rating Process

- The foundation of the rating process is an ongoing dialogue with the rated company's management
- Ratings are determined by a rating committee, by simple majority vote
- Key rating drivers:
  - Balance Sheet Strength
  - Operating Performance
  - Business Profile
  - Enterprise Risk Management



# Rating Translation Table

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

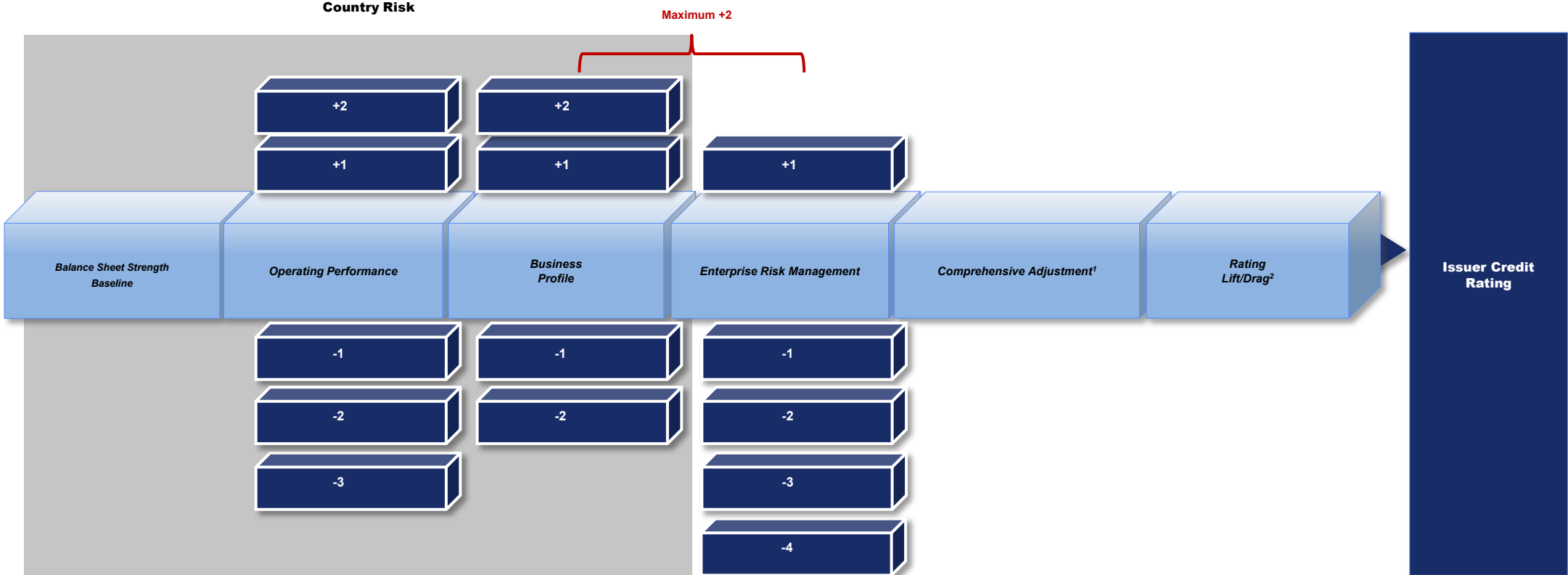
Long-Term ICR	FSR
bb+ bb	B
bb-	B-
b+ b	C++
b-	C+
ccc+ ccc	C
ccc- cc	C-

**ICR:** opinion regarding the entity’s ability to meet its ongoing senior financial obligations

**FSR:** opinion regarding an insurer’s financial strength and ability to meet ongoing insurance policy and contract obligations

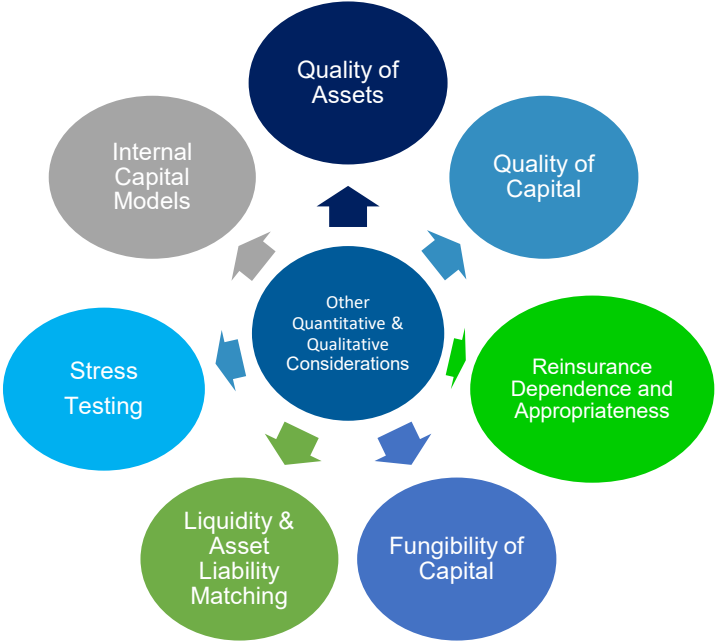


# Building Block Approach



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 +4 to -4

# Balance Sheet Strength Assessment: Not just BCAR



# BCAR Guidelines

$$\text{BCAR} = \frac{(\text{Available Capital} - \text{Net Required Capital})}{\text{Available Capital}} \times 100$$

VaR Level (%)	BCAR	BCAR Assessment
99.6	> 25 at 99.6	Strongest
99.6	> 10 at 99.6 & ≤ 25 at 99.6	Very Strong
99.5	> 0 at 99.5 & ≤ 10 at 99.6	Strong
99	> 0 at 99 & ≤ 0 at 99.5	Adequate
95	> 0 at 95 & ≤ 0 at 99	Weak
95	≤ 0 at 95	Very Weak

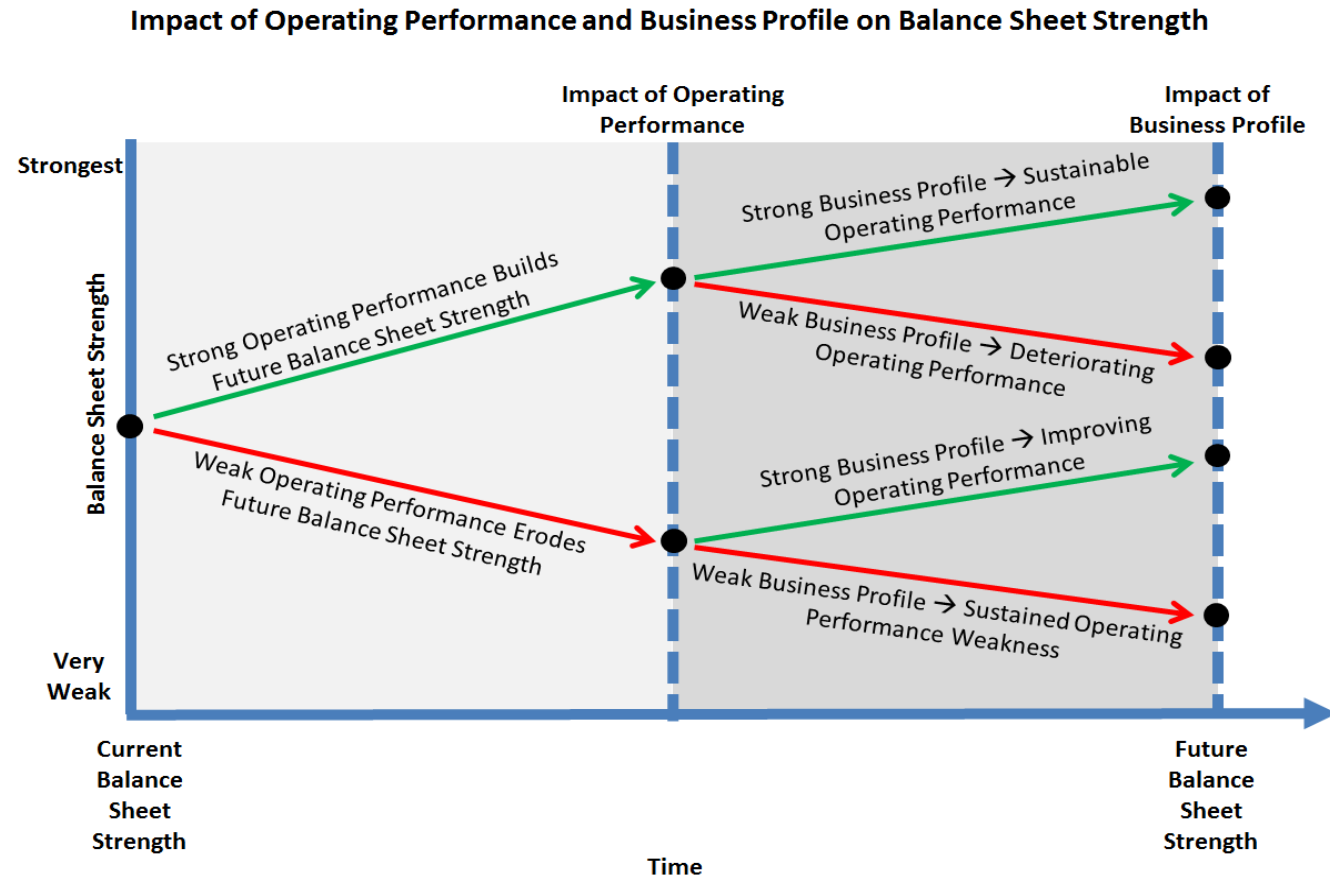
\* Companies with < 20 million USD in capital & surplus cannot qualify in strongest category

# Balance Sheet Strength: The Baseline Assessment

## Overall Balance Sheet Strength Assessment

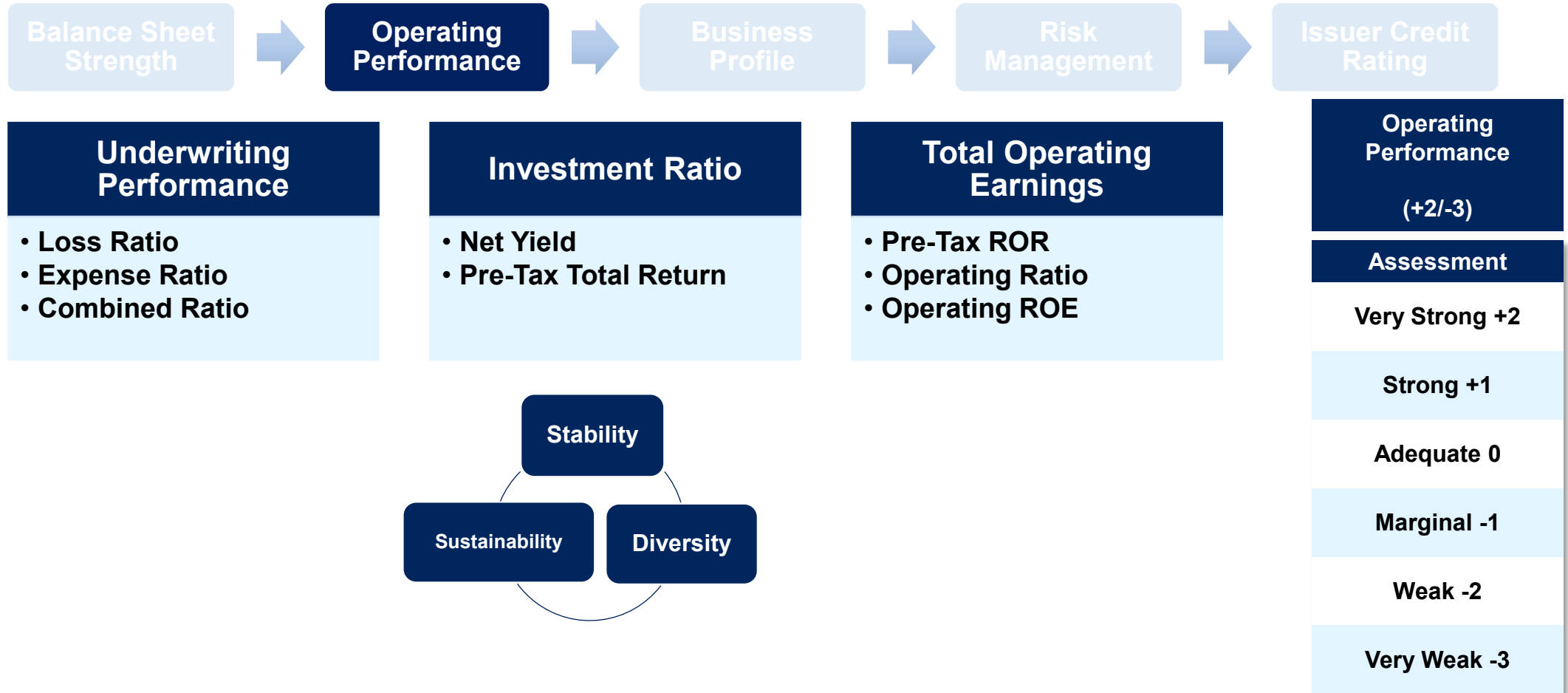
Combined Balance Sheet Assessment (Rating Unit/Holding Company)	Country Risk Tier					
	CRT-1	CRT-2	CRT-3	CRT-4	CRT-5	
	Strongest	a+/a	a+/a	a/a-	a-/bbb+	bbb+/bbb
	Very Strong	a/a-	a/a-	a-/bbb+	bbb+/bbb	bbb/bbb-
	Strong	a-/bbb+	a-/bbb+	bbb+/bbb/bbb-	bbb/bbb-/bb+	bbb-/bb+/bb
	Adequate	bbb+/bbb/bbb-	bbb+/bbb/bbb-	bbb-/bb+/bb	bb/bb-	bb/bb-/b+
	Weak	bb+/bb/bb-	bb+/bb/bb-	bb-/b+/b	b+/b/b-	b/b-/ccc+
Very Weak	b+ and below	b+ and below	b- and below	ccc+ and below	ccc and below	

# Impact of Operating Performance & Business Profile on Balance Sheet Strength





# Operating Performance



# Business Profile

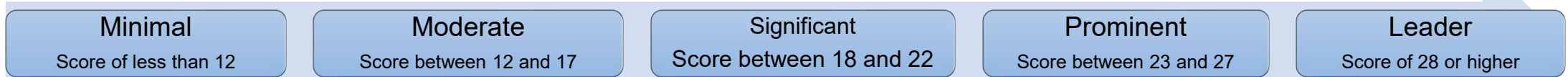
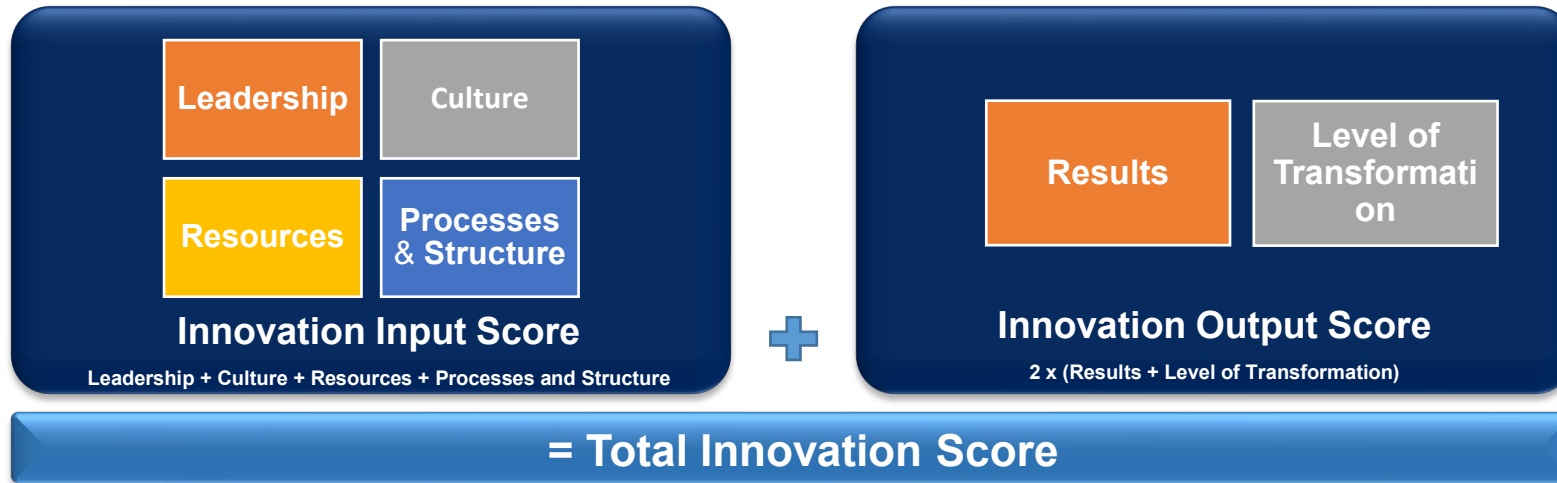


Business Profile Rating Drivers	
Product/Geographic Concentration	Product Risk
Market Position	Degree of Competition
Pricing Sophistication & Data Quality	Management Quality
Regulatory, Event & Market Risks	Distribution Channels
Innovation	

Business Profile
(+2/-2)
Assessment
Very Favourable +2
Favourable +1
Neutral 0
Limited -1
Very Limited -2



# Scoring and Assessing Innovation



# Business Profile: General Characteristics

Very Favourable	Favourable	Neutral	Limited
<ul style="list-style-type: none"><li>▪ Superior global franchise</li><li>▪ Excellent product &amp; geographical diversification</li><li>▪ Excellent access to business through multiple distribution channels</li><li>▪ Market leaders across key segments</li><li>▪ Pricing sophistication</li><li>▪ Core markets/ products performing well</li><li>▪ Leader in innovation</li></ul>	<ul style="list-style-type: none"><li>▪ Leading position in a single market or niche segment</li><li>▪ Good product &amp; geographical diversification</li><li>▪ Strong access to markets through key distribution channels</li><li>▪ Extensive inhouse expertise</li><li>▪ Good data and pricing sophistication</li><li>▪ Core lines performing well</li><li>▪ Significant innovation</li></ul>	<ul style="list-style-type: none"><li>▪ Strong market profile in a small market</li><li>▪ Limited size on global scale</li><li>▪ Narrow profile on net basis</li><li>▪ Some dependence on third parties</li><li>▪ High degree of competition</li><li>▪ Moderate economic/ political/regulatory risk</li><li>▪ Limited/moderate innovation</li></ul>	<ul style="list-style-type: none"><li>▪ SME and monoline insurers</li><li>▪ Limited product &amp; geographical diversification</li><li>▪ Very limited profile on global scale</li><li>▪ Narrow profile on net basis</li><li>▪ High dependence on third parties</li><li>▪ High degree of competition</li><li>▪ High economic/ political/regulatory risk</li><li>▪ Limited innovation</li></ul>

# Enterprise Risk Management (ERM)



Framework Assessment Components
Risk Identification and Reporting
Risk Appetite and Tolerances
Stress Testing and Non-Modelled Risks
Risk Management and Controls
Governance and Risk Culture

Risk Evaluation Review Components	
Product & Underwriting Risk	Operational Risk
Reinsurance Risk	Concentration Risk
Legislative/Regulatory/Judicial/Economic Risk	Investment Risk
Reserving Risk	Liquidity & Capital Management Risk

Enterprise Risk Management (+1/-4)
Assessment
Very Strong +1
Appropriate 0
Marginal -1
Weak -2
Very Weak -3/4



# ERM: General Characteristics

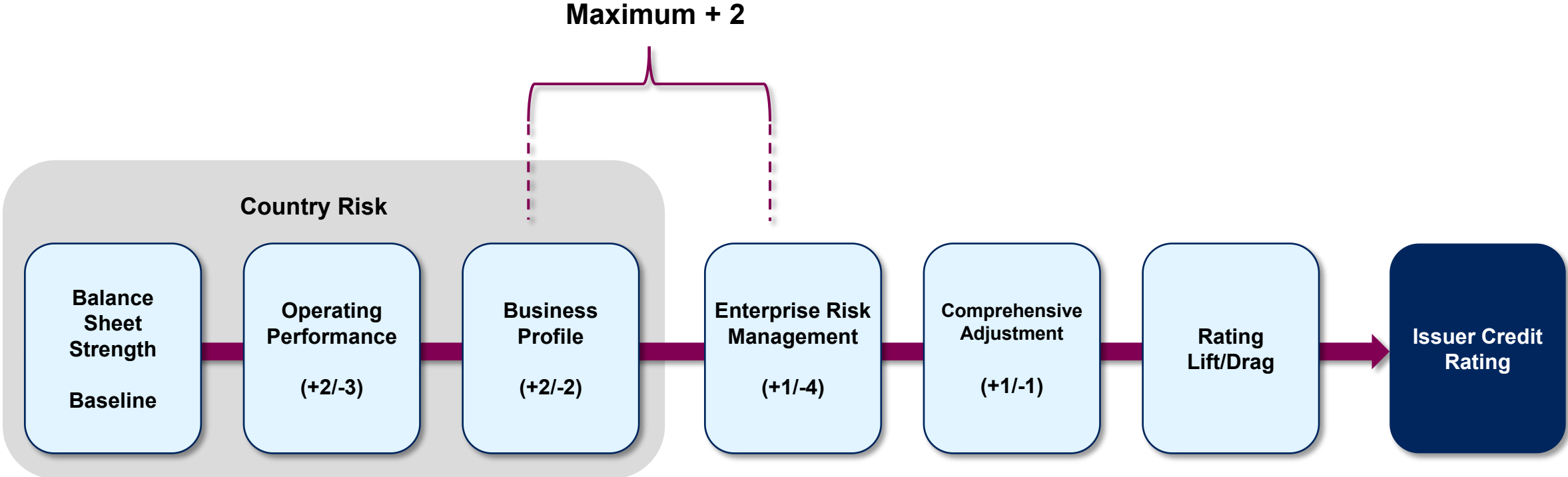
Very Strong	Appropriate	Marginal	Weak
<ul style="list-style-type: none"> <li>▪ Formalised risk appetite/tolerances</li> <li>▪ Defined risk reporting roles/responsibilities</li> <li>▪ Regular stress/scenario testing</li> <li>▪ Superior risk control/ monitoring procedures</li> <li>▪ Horizon scanning</li> <li>▪ Sophisticated inhouse modelling &amp; tools</li> <li>▪ Fully embedded risk framework</li> <li>▪ Strong governance &amp; risk culture</li> </ul>	<ul style="list-style-type: none"> <li>▪ Defined risk appetite/tolerances</li> <li>▪ Clear roles</li> <li>▪ Periodic stress/scenario testing</li> <li>▪ Robust risk control/monitoring procedures</li> <li>▪ Advanced inhouse modelling &amp; tools</li> <li>▪ Risk framework partially utilised for strategic decision making</li> <li>▪ Developing governance &amp; risk culture</li> </ul>	<ul style="list-style-type: none"> <li>▪ Basic risk appetite/tolerances</li> <li>▪ Evolving risk control/monitoring procedures</li> <li>▪ No evidence of stress/scenario testing</li> <li>▪ Some third-party reliance</li> <li>▪ Little alignment between risk framework &amp; business strategy</li> <li>▪ Emerging governance &amp; risk culture</li> <li>▪ Moderate economic/ political/regulatory risk</li> </ul>	<ul style="list-style-type: none"> <li>▪ Indistinct risk appetite/tolerances</li> <li>▪ History of ERM failures/regulatory breaches</li> <li>▪ Extensive third-party reliance</li> <li>▪ No alignment between risk framework &amp; business strategy</li> <li>▪ Underdeveloped governance &amp; risk culture</li> <li>▪ High economic/ political/regulatory risk</li> </ul>

# Building Block Approach Recap

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-

# Building Block Approach Recap





# Further Resources

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For further information, please see:

<http://www3.ambest.com/ambv/ratingmethodology/>

<http://www.ambest.com/ratings/index.html>

<http://www3.ambest.com/IndustryResearch/>

# Q&A

**Thank you!**



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