

Convene 200 Aldersgate, St.Paul's - London

AM Best's Europe Insurance Market Briefing & Methodology Review Seminar - London

Agenda – Methodology Review Seminar

14:15 Welcome and Introductory Comments

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

14:20 Benchmarking EMEA Ratings

*Dale Kirby, Senior Financial Analyst
Andrea Porta, Senior Financial Analyst*

**14:40 Revised Criteria: Rating Captives and Other
Alternative Risk Transfer Entities**

*Kanika Thukral, Associate Director, Analytics
Konstantin Langowski, Associate Director, Credit
Rating Criteria, Research & Analytics*

**15:00 Warning Signs: Examining Events Leading to
Insurer Failure**

*Valeria Ermakova, Associate Director, Credit Rating
Criteria, Research & Analytics
Stanislav Stoev, ACCA, CFA, Senior Financial Analyst*

15:25 IFRS 17: Latest Observations

*Ben Diaz-Clegg, Associate Director, Analytics
Todor Kitin, Associate Director, Analytics*

15:50 Q&A

16:30 Close

Q&A Sessions

**Use the QR code to submit questions
to our speakers**



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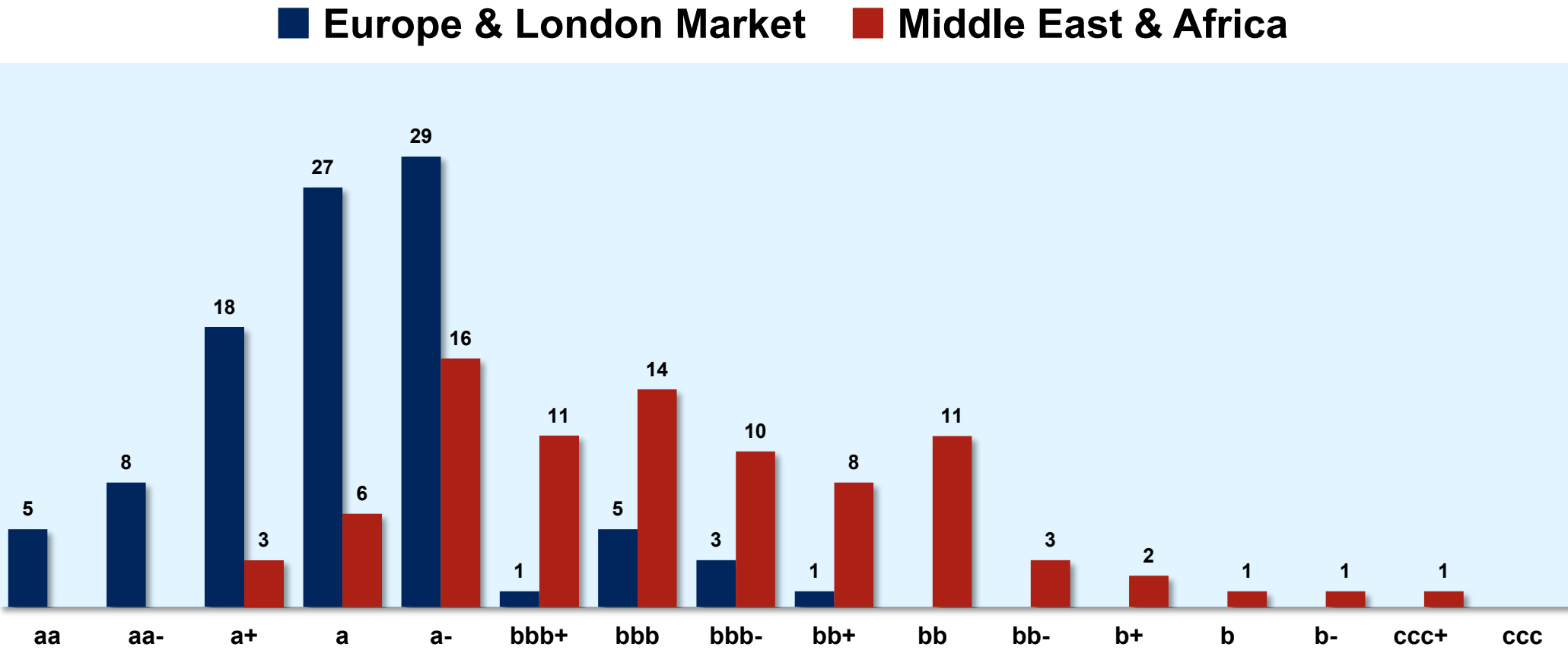
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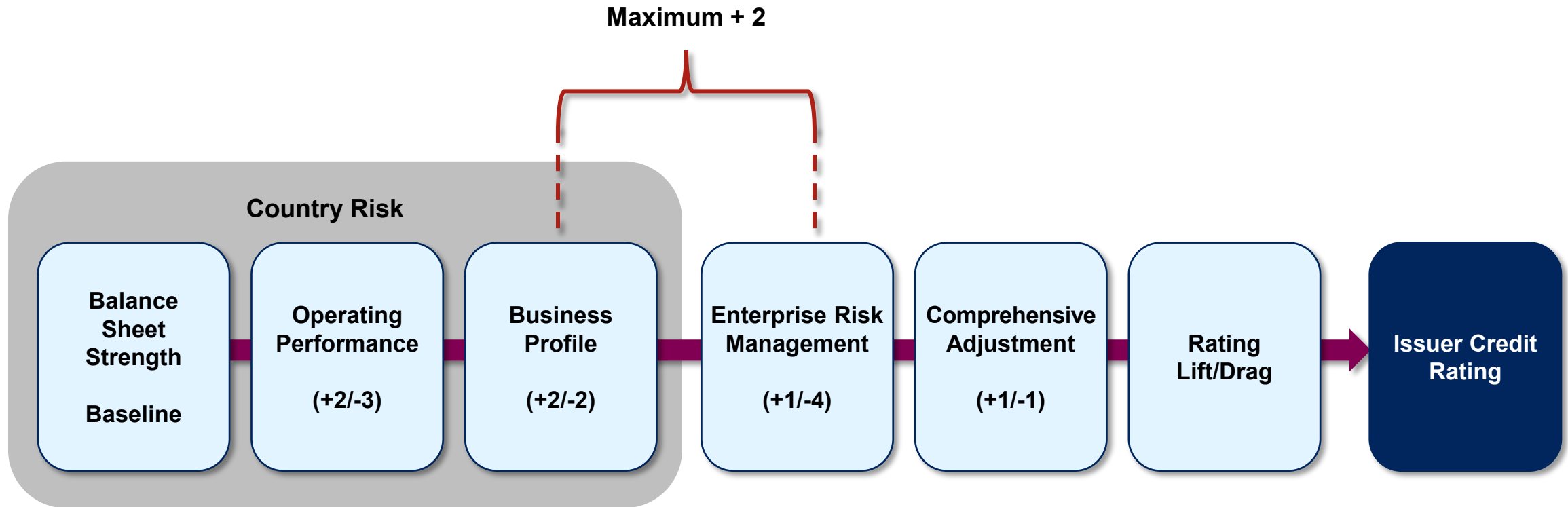
Benchmarking EMEA Ratings

Dale Kirby, Senior Financial Analyst
Andrea Porta, Senior Financial Analyst

Issuer Credit Ratings EMEA – Count



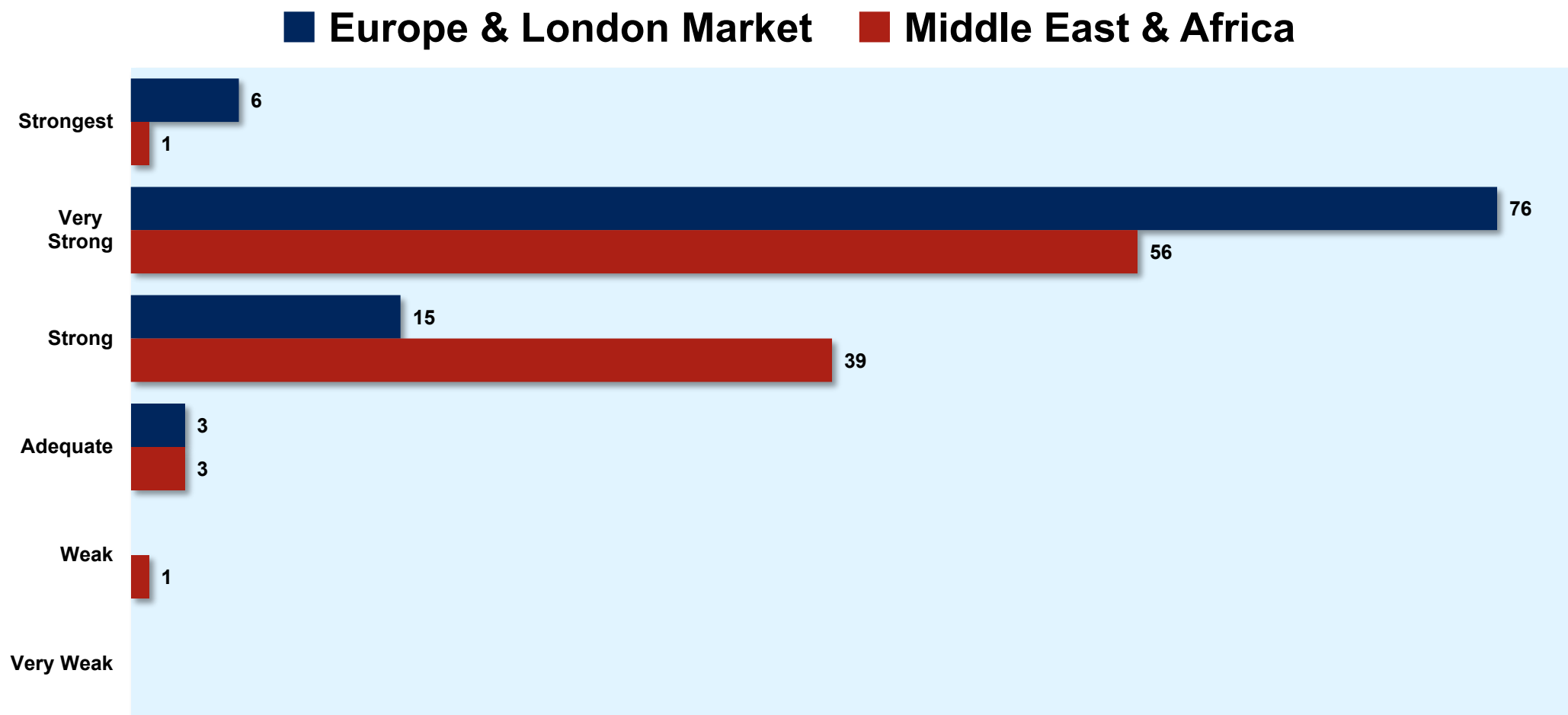
AM Best's Rating Process - Recap



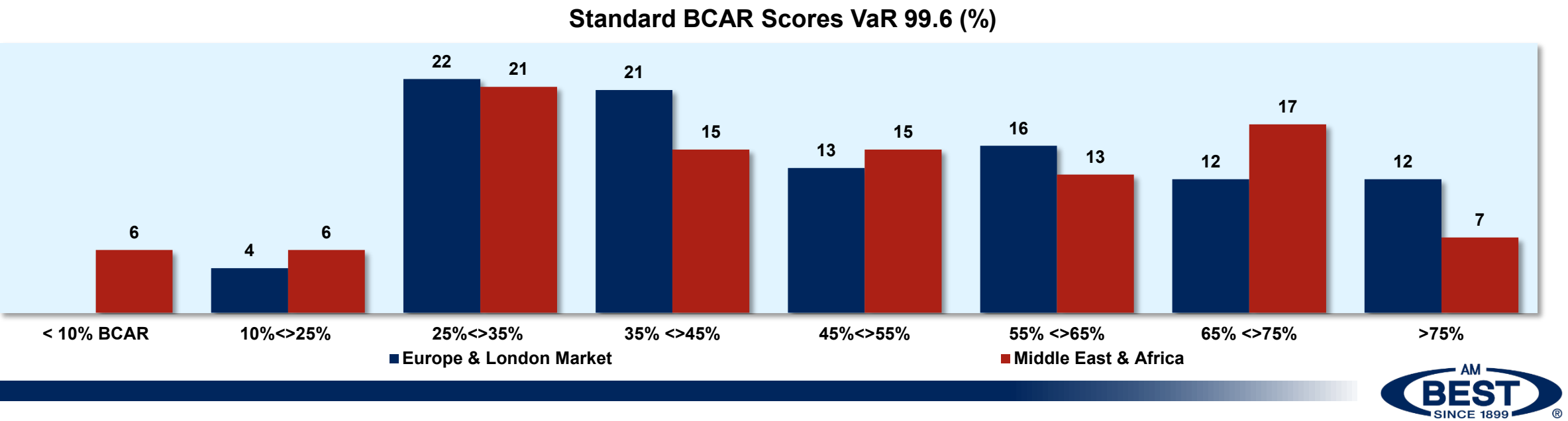
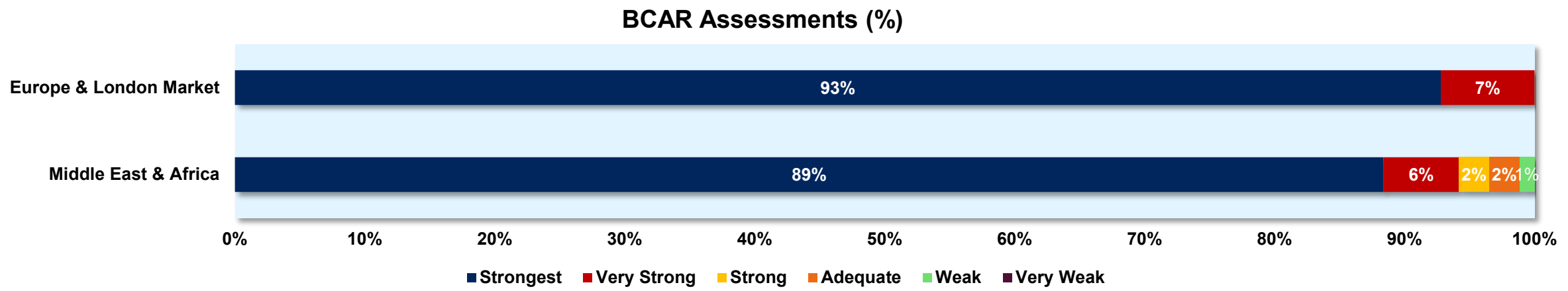
AM Best's Rating Process - Recap

Balance Sheet Strength Baseline	Operating Performance (+2/-3)	Business Profile (+2/-2)	Enterprise Risk Management (+1/-4)
Assessment	Assessment	Assessment	Assessment
Strongest	Very Strong +2	Very Favorable +2	Very Strong +1
Very Strong	Strong +1	Favorable +1	Appropriate 0
Strong	Adequate 0	Neutral 0	Marginal -1
Adequate	Marginal -1	Limited -1	Weak -2
Weak	Weak -2	Very Limited -2	Very Weak -3/4
Very Weak	Very Weak -3		

Balance Sheet Strength - Distribution of Assessments (%)

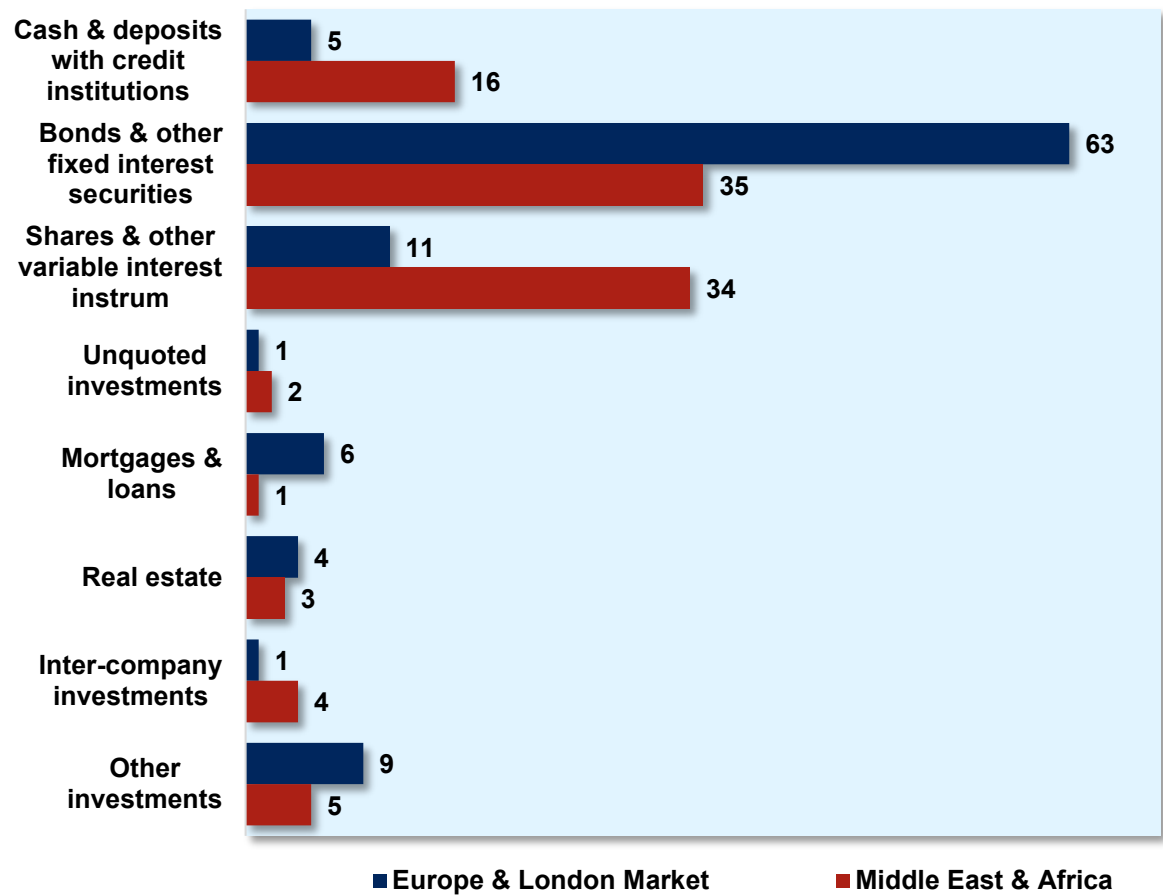


Balance Sheet Strength – Distribution of BCAR Assessments (%)

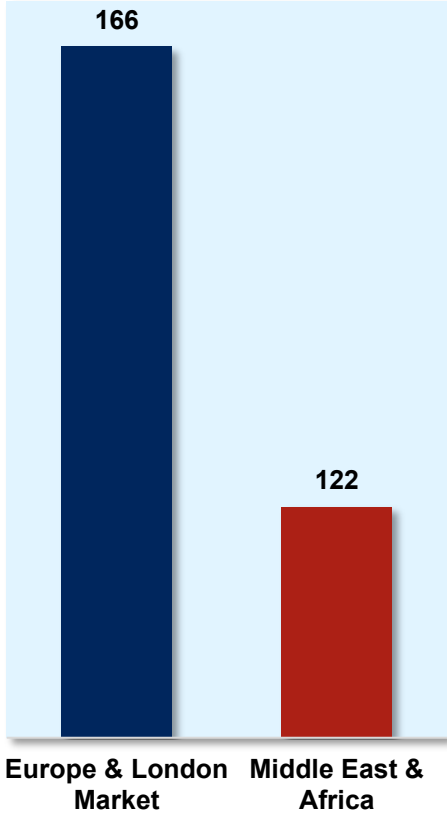


Balance Sheet Strength – Distribution of Capital Requirements (%)

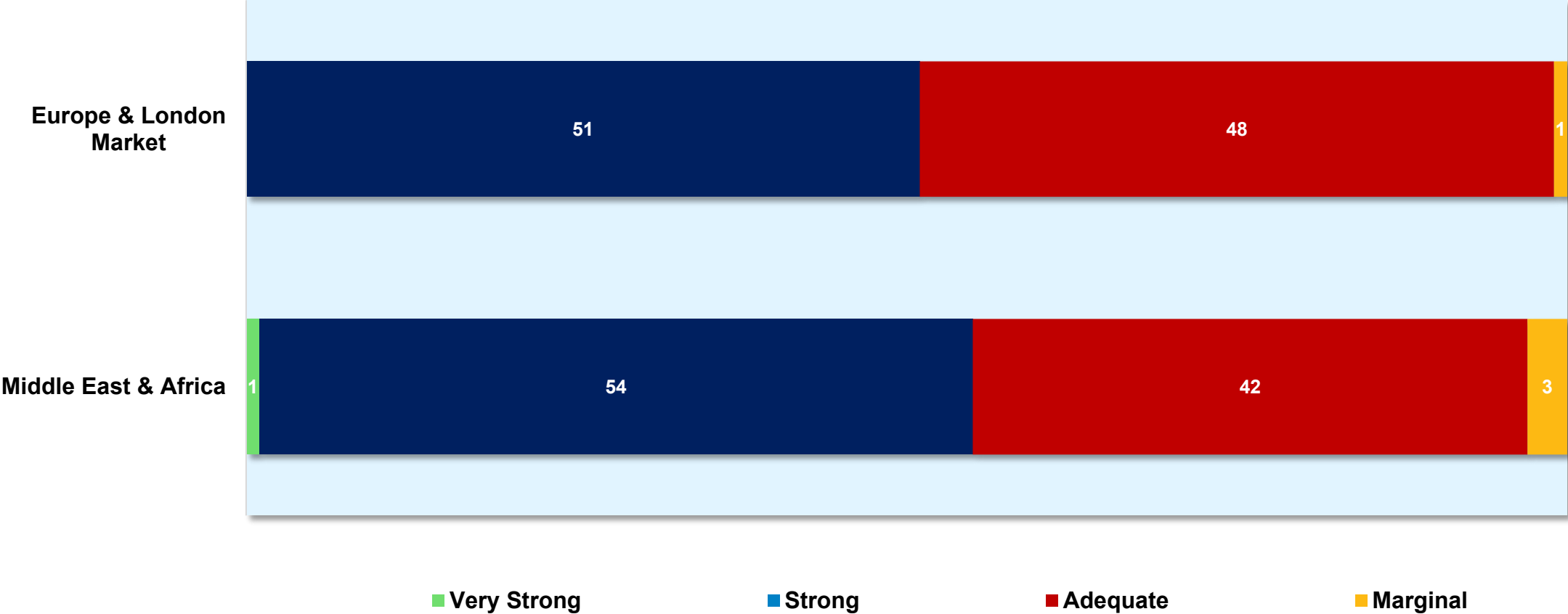
Balance Sheet Strength EMEA – Distribution of Investments



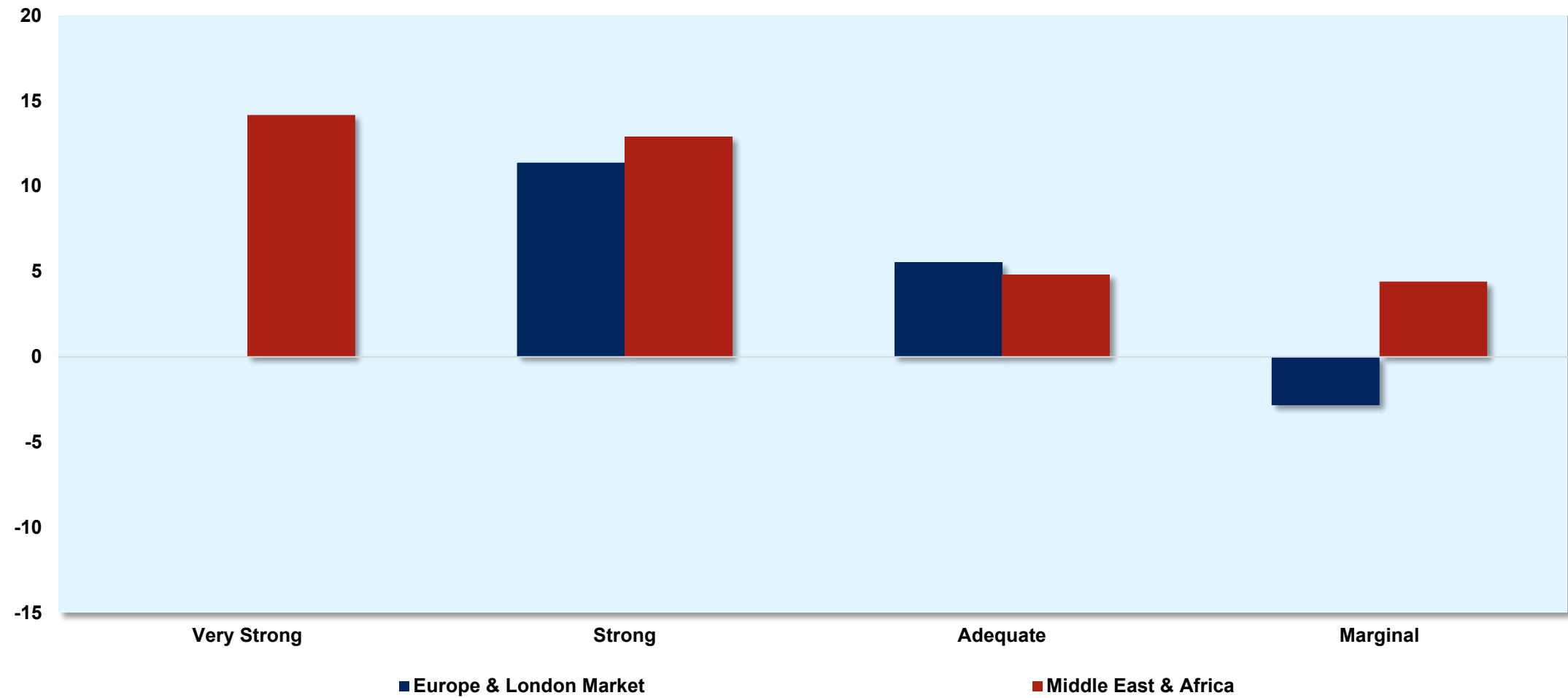
Underwriting Leverage
(Revenue/Shareholders' Funds)
2024



Operating Performance - Distribution of Assessments (%)



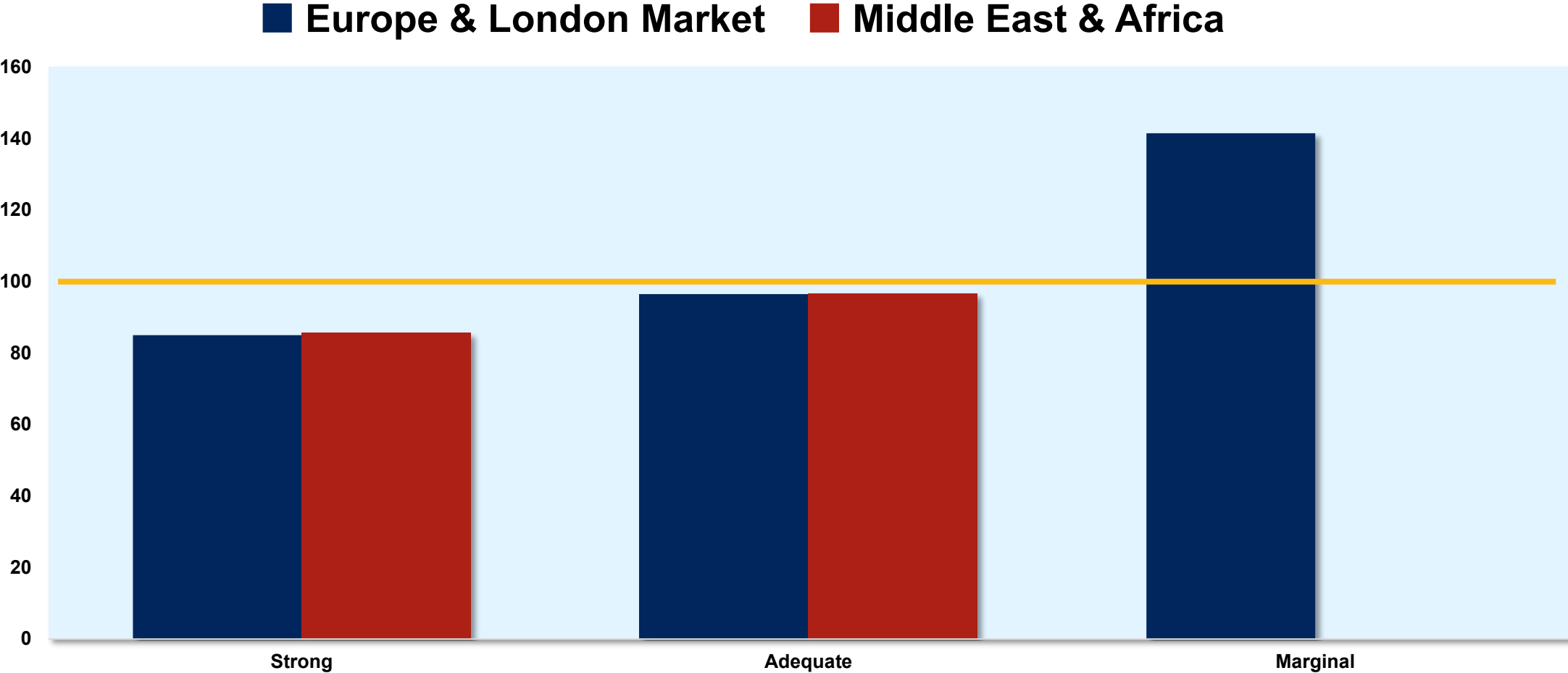
Operating Performance – Five-Year (2020-2024) Average Return on Equity (%)



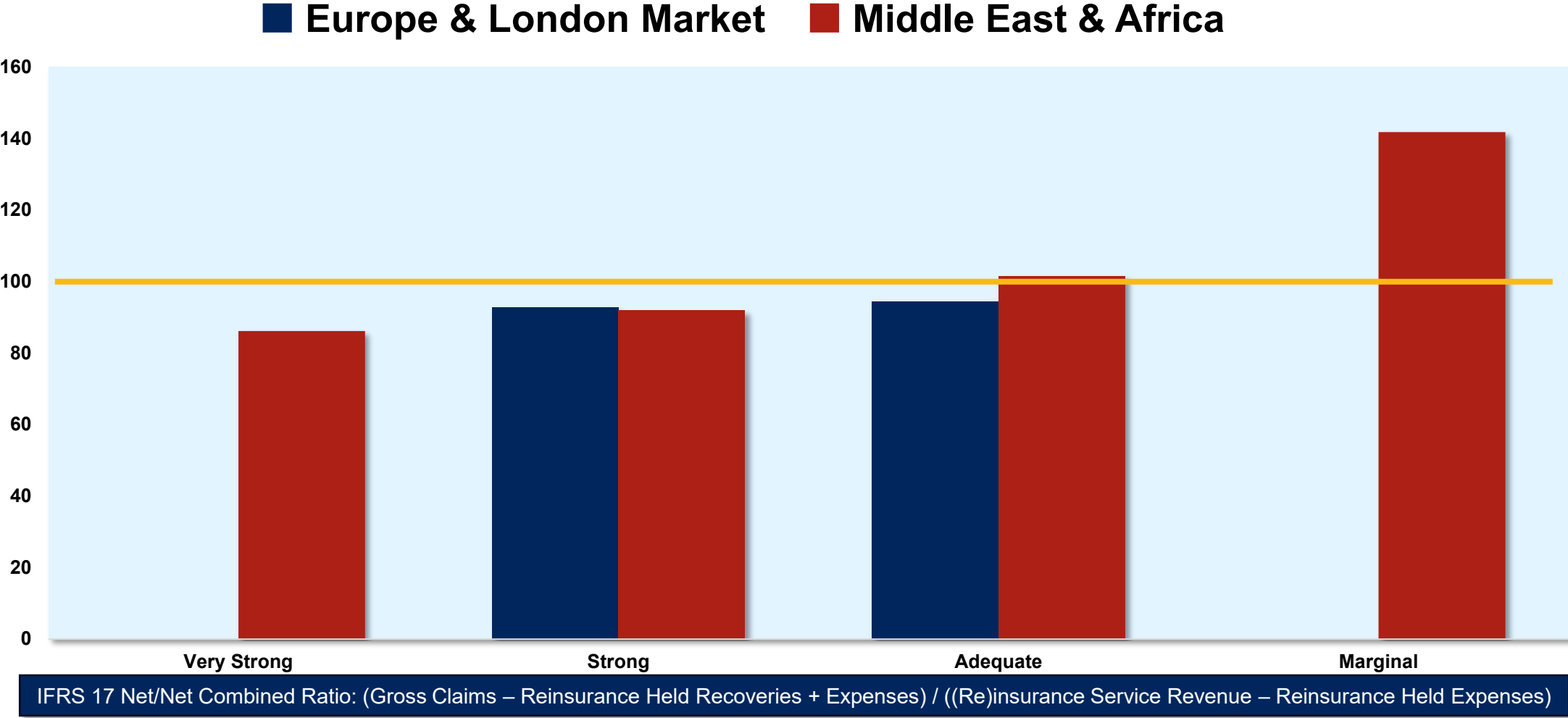
Companies within the sample report under a variety of accounting standards (including US GAAP, IFRS 17, IFRS 4, Local GAAP): Comparison of individual company data therefore requires interpretation. Source: AM Best data and research



Operating Performance – Three-Year (2022-2024) Average non-IFRS 17 Combined Ratio (%)

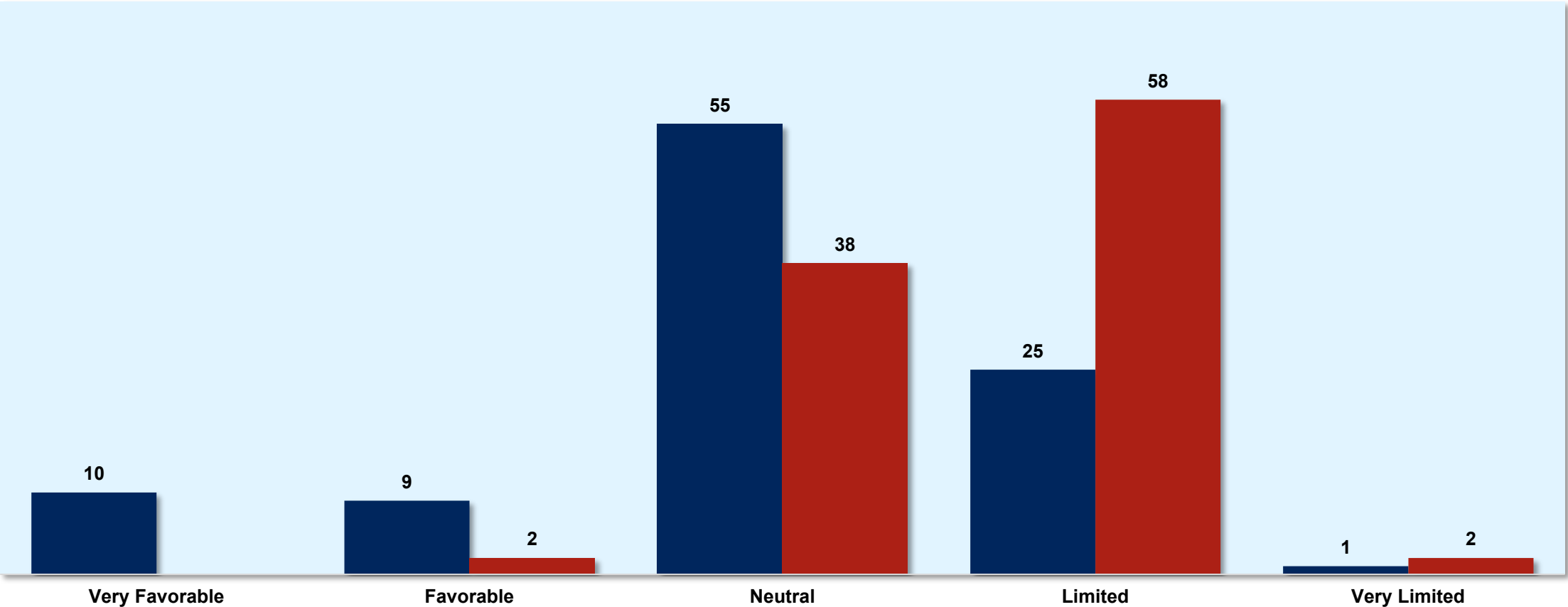


Operating Performance – Three-Year (2022-2024) Average IFRS 17 Net/Net Combined Ratio (%)

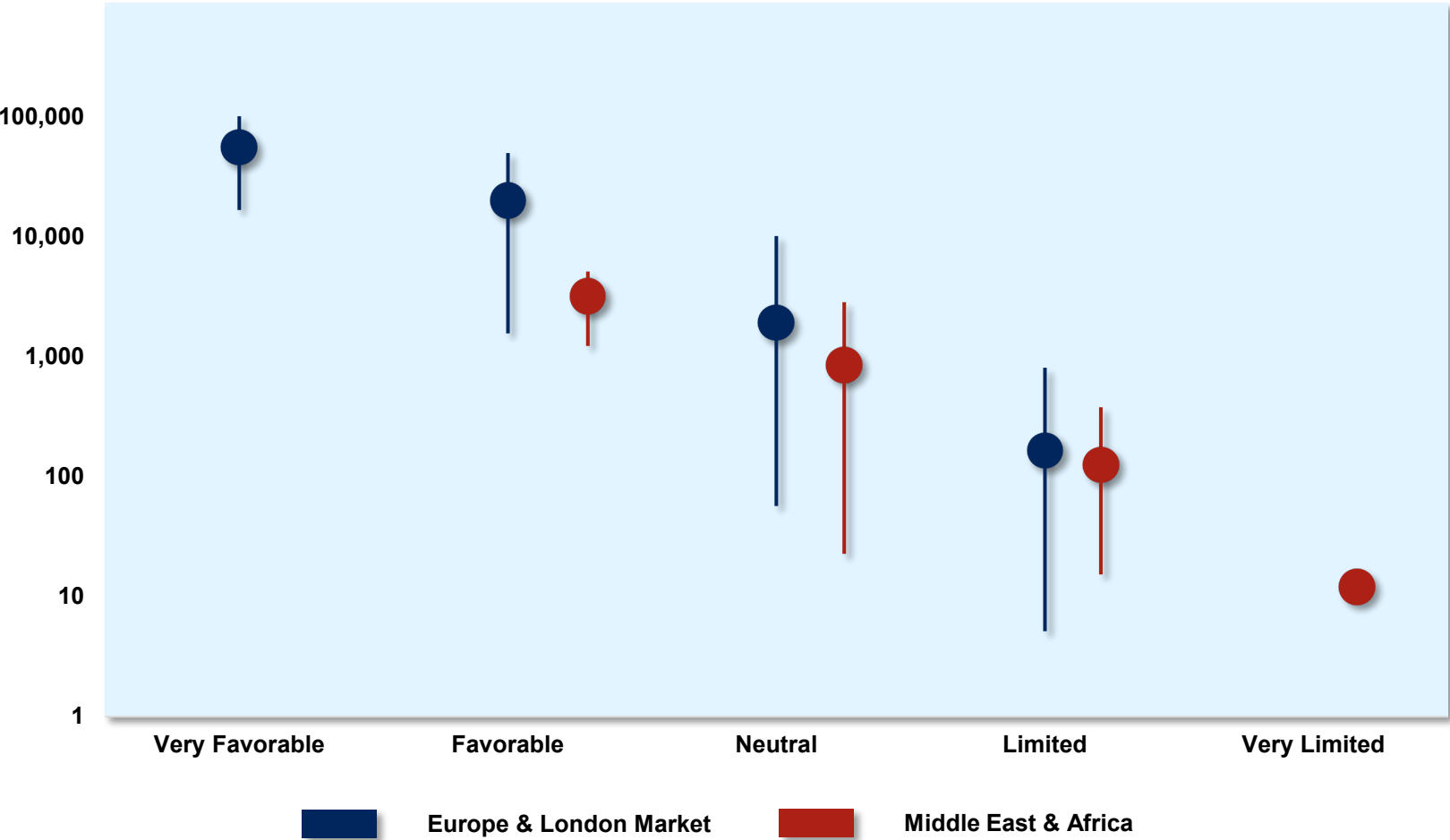


Business Profile – Distribution of Assessments (%)

■ Europe & London Market ■ Middle East & Africa

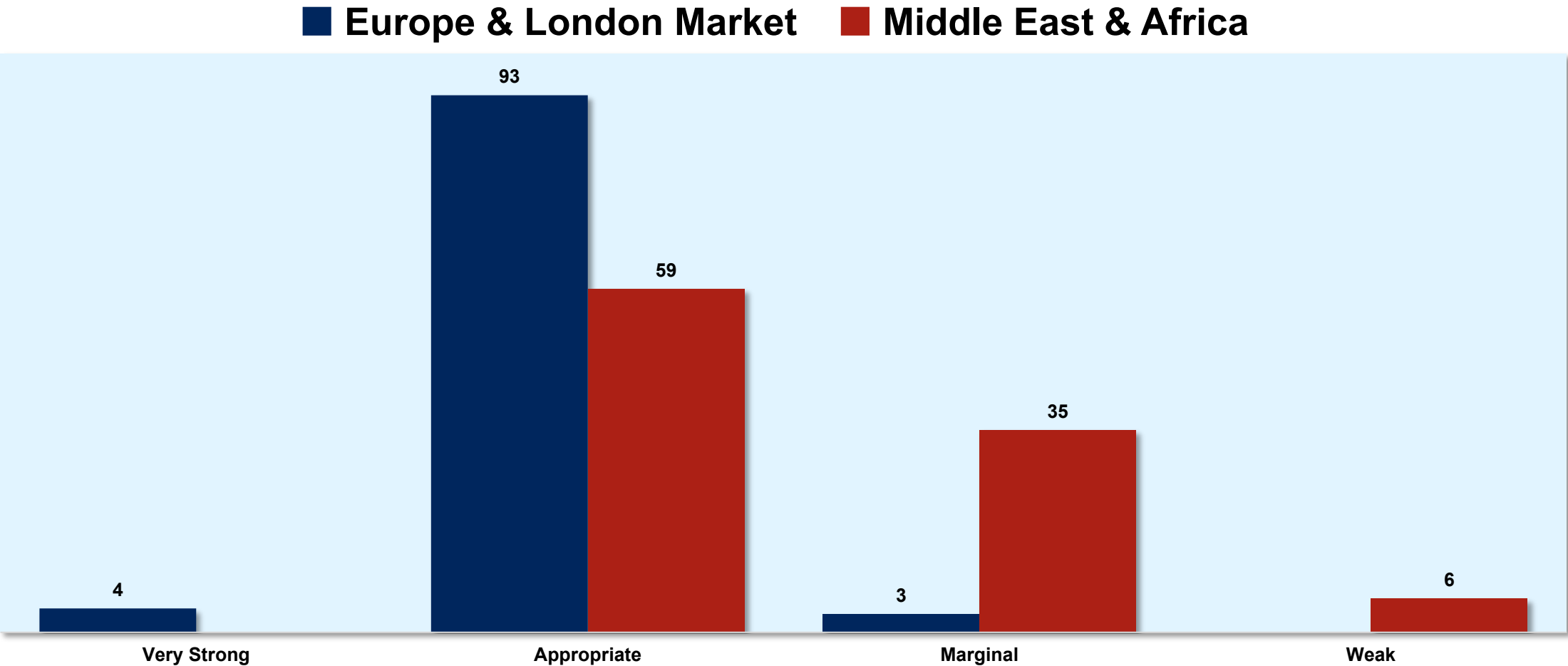


Business Profile – Average Revenue (USD millions)



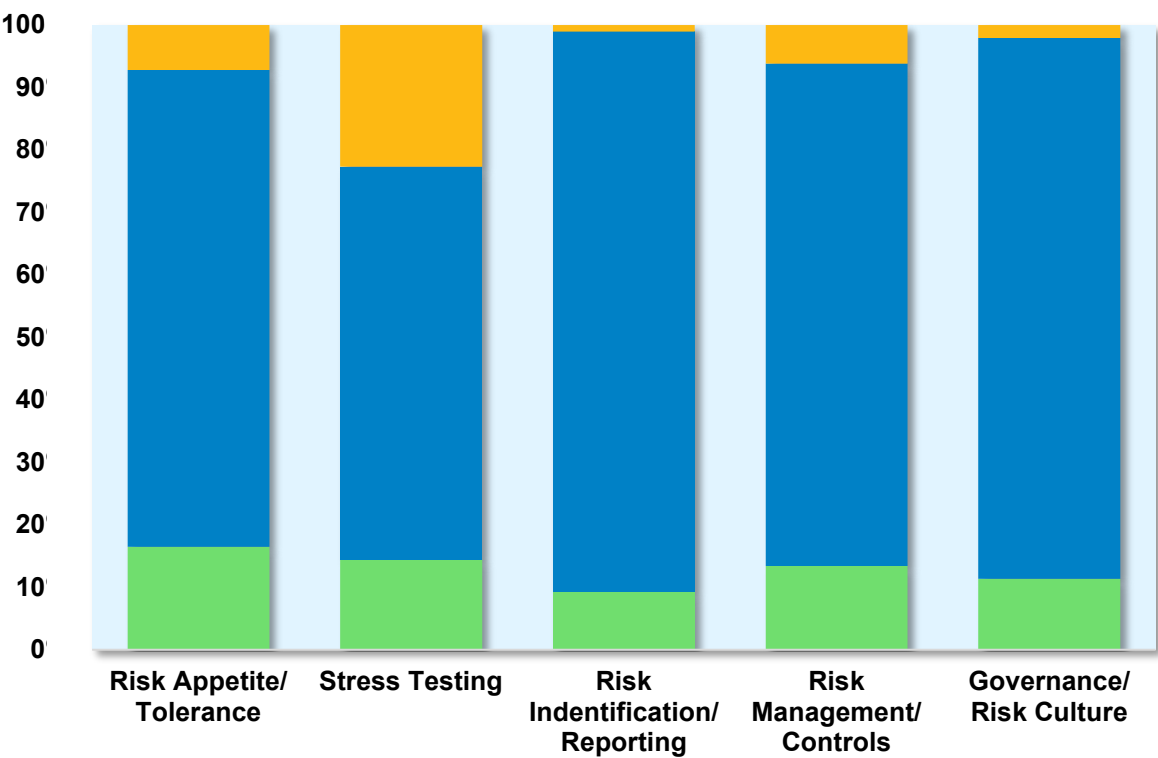
Business Profile Review Components	
Product/ Geographic Concentration	Product Risk
Market Position	Degree of Competition
Pricing Sophistication & Data Quality	Management Quality
Regulatory, Event & Market Risks	Distribution Channels
Innovation	

Enterprise Risk Management – Distribution of Assessments (%)

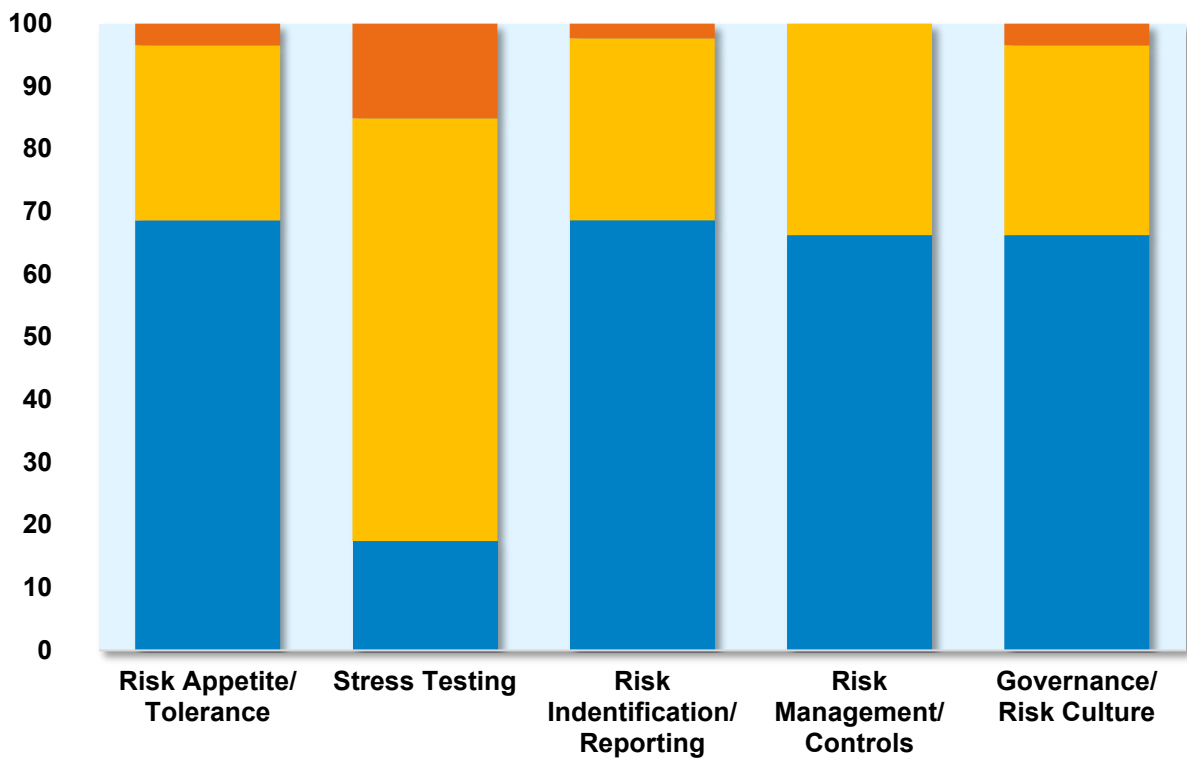


Enterprise Risk Management – Distribution of Risk Framework Assessments (%)

Europe & London Market



Middle East & Africa

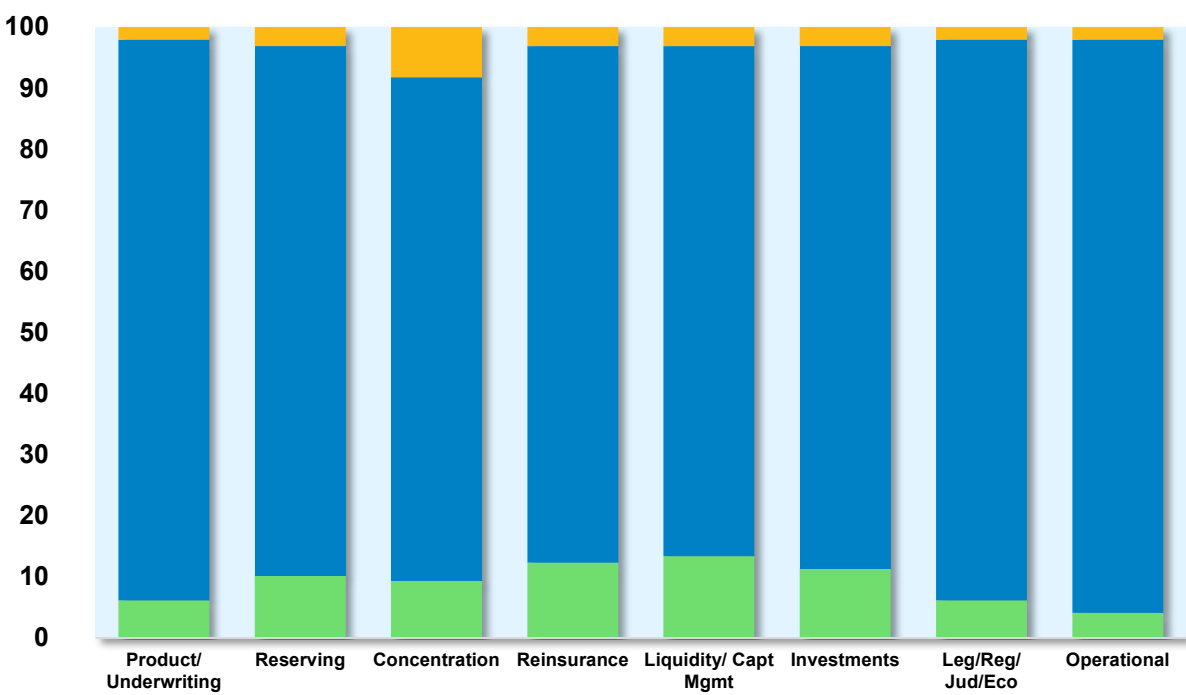


■ Embedded ■ Developed ■ Evolving ■ Nascent ■ Unrecognized

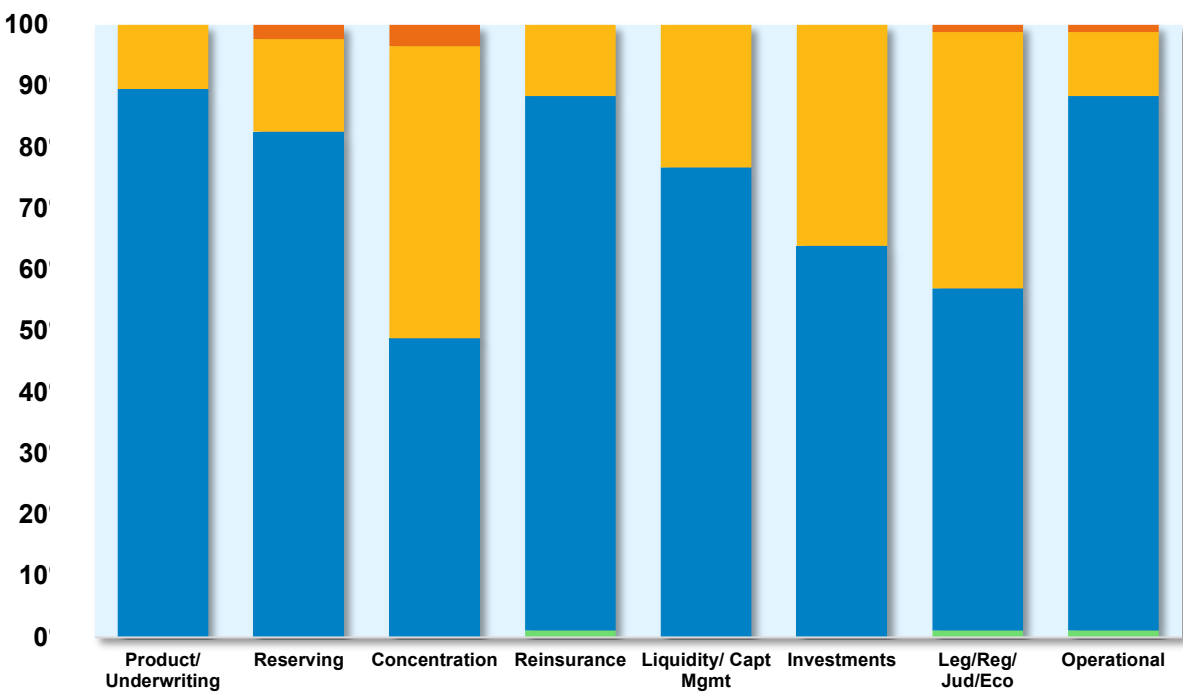


Enterprise Risk Management – Distribution of Risk Capability Assessments (%)

Europe & London Market



Middle East & Africa



Very Strong Appropriate Marginal Weak Very Weak



Q&A

Dale Kirby, Senior Financial Analyst
Andrea Porta, Senior Financial Analyst

Use the QR code to submit questions to our speakers



Revised Criteria: Rating Captives and Other Alternative Risk Transfer Entities

Kanika Thukral, Associate Director, Analytics
Konstantin Langowski, Associate Director, Credit
Rating Criteria, Research & Analytics

Background

Rating Captives and Other Alternative Risk Transfer Entities

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

Material revisions made to this criteria (August 2025)

- Renamed to “Rating Captives and Other Alternative Risk Transfer Entities”
- Update to approach for rating protected cell company structures
- Refinement to criteria language

Revisions to the criteria have not led to rating changes

Focus on Single Parent Captives

Balance Sheet Strength Assessment (I)



Key Balance Sheet Strength Considerations

Exposure to large loss events

Loan-backs to parents

Balance Sheet Strength Assessment (II)

Criteria Updates

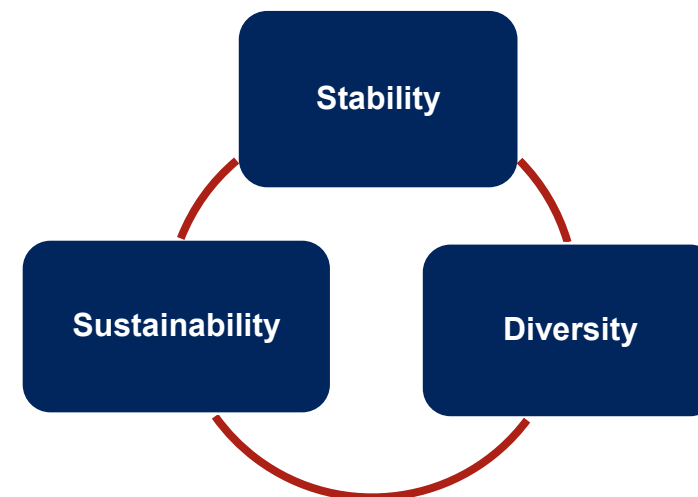
Requirements for LOCs

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

Parent / Holding Company analysis

- Non-insurance ultimate parent – Impact captured in the rating lift/drag assessment
- Insurance Holding Company (IHC) – Impact captured as part of the balance sheet strength assessment

Operating Performance Assessment



Criteria Updates

Consideration of a variety of quantitative and qualitative measures:

- Diversity in earnings streams leading to greater stability
- Performance volatility evaluated in the context of the ART entity's purpose/strategy
- Profitability metrics considered over the longer term, recognising the potential of occasional outsized losses

Business Profile Assessment

Product/ Geographic Concentration	Product Risk
Market Position	Degree of Competition
Pricing Sophistication and Data Quality	Management Quality
Regulatory, Event and Market Risks	Distribution Channels
Innovation	

Criteria Updates

Captive focused considerations:

- Viewed favourably when evaluating market position, degree of competition and control of distribution
- Value creation through reduced insurance cost for the parent
- 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**

**Risk Impact
Worksheet**

Criteria Updates

Assessment of the risk management framework and the risk management capability relative to the captive's risk profile:

- Extension of the parent's ERM
- Captives are typically formed for efficient risk mitigation
- Single parent captives benefit from the parent's knowledge of its own risks and acceptance of its risk tolerance and appetite

Lift/Drag Assessment

Criteria Updates

Parent / Holding Company analysis:

- Non-insurance ultimate parent –
Impact captured in the rating lift/drag assessment
- Insurance Holding Company (IHC) –
Impact captured as part of the balance sheet strength assessment

Key Lift/Drag Considerations

Credit profile of the parent

Importance of the ART entity to the parent

History of capital support or explicit support in place

Ring fenced capital

Focus on Cell Company Structures

Cell Company Structures

Update to 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)

An **incorporated cell company (ICC)** is composed of a number of individual cells

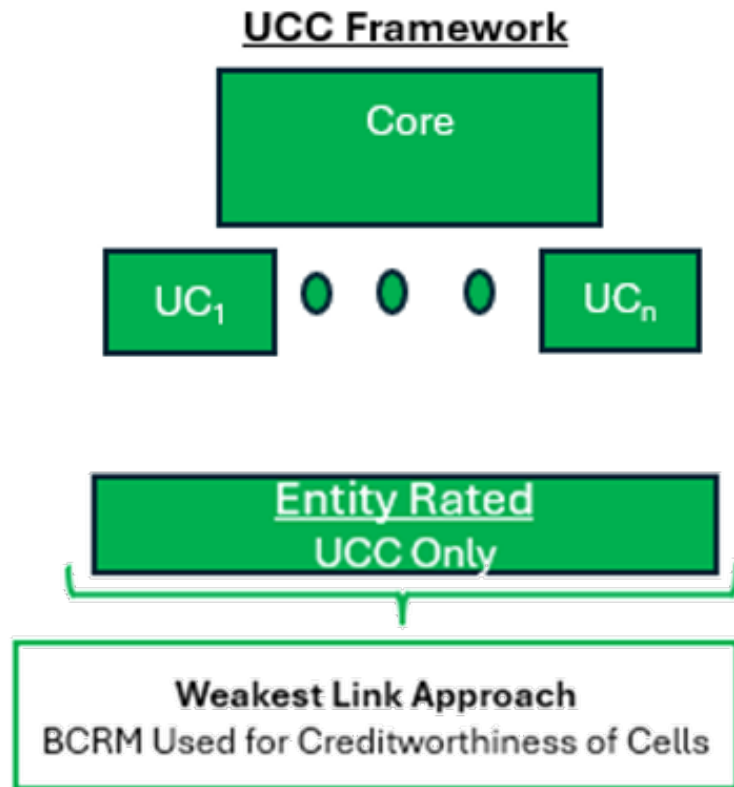
- Each individual cell is a separate incorporated legal entity

An **unincorporated cell company (UCC)** is composed of a number of individual cells

- Only the UCC is an incorporated legal entity
- The individual unincorporated cells (UC) may not be considered separate legal entities
- Insurance policies are issued by the UCC on behalf of the individual UCs

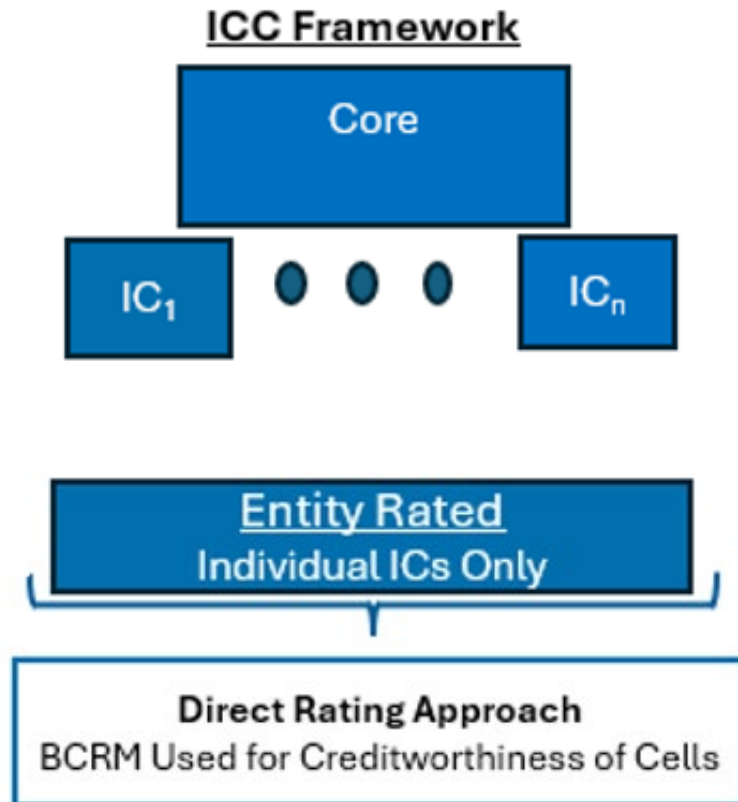
A **mixed cell company (MCC)** is composed of both ICs and UCs

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 analysing each of its cells and applying the weakest link approach

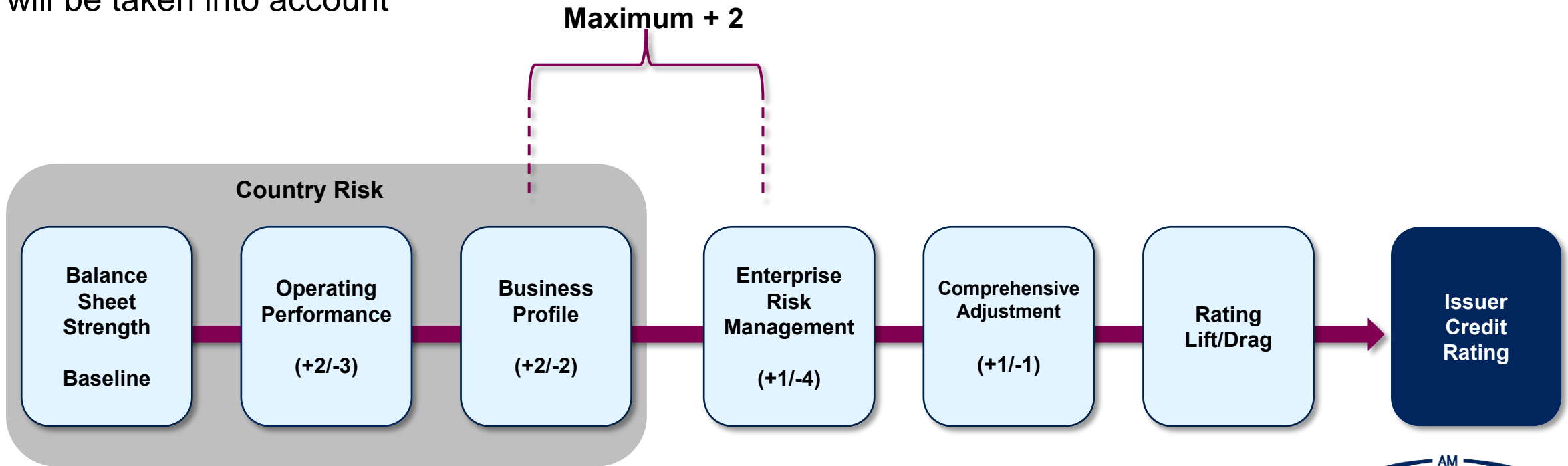
Incorporated Cell Company (ICC) (I)



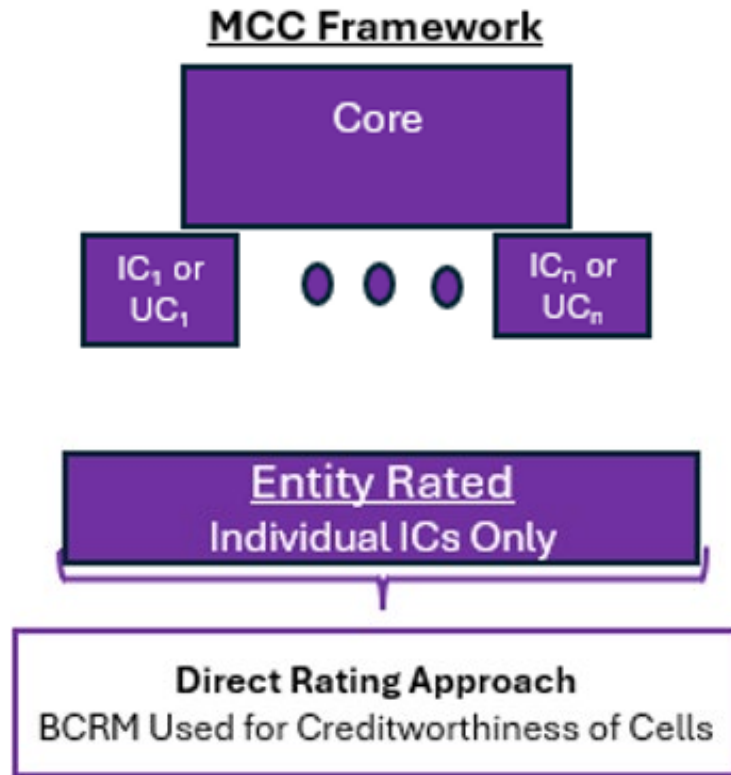
- Ratings can be assigned to one or more IC where authority has been granted to the IC by an insurance regulator to provide insurance contracts
- Third party legal reviews may be used to ensure requirements are met

Incorporated Cell Company (ICC) (II)

- If AM Best determines that an IC can be rated, this will be achieved through its usual Best's Credit Rating Methodology (BCRM) building block approach
- The weakest link principle will not apply
- However, any reliance on the ICC, such as for management or administrative support, will be taken into account



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

Q&A

**Kanika Thukral, Associate Director, Analytics
Konstantin Langowski, Associate Director, Credit
Rating Criteria, Research & Analytics**

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Warning Signs: Examining Events Leading to Insurer Failure

**Valeria Ermakova, Associate Director, Credit Rating
Criteria Research & Analytics
Stanislav Stoev, ACCA, CFA, Senior Financial Analyst**

Agenda

Examples of Causes of Failure

“Red Flags” – Synthetic Case Study

Importance of Enterprise Risk Management

Examples of Causes of Failure

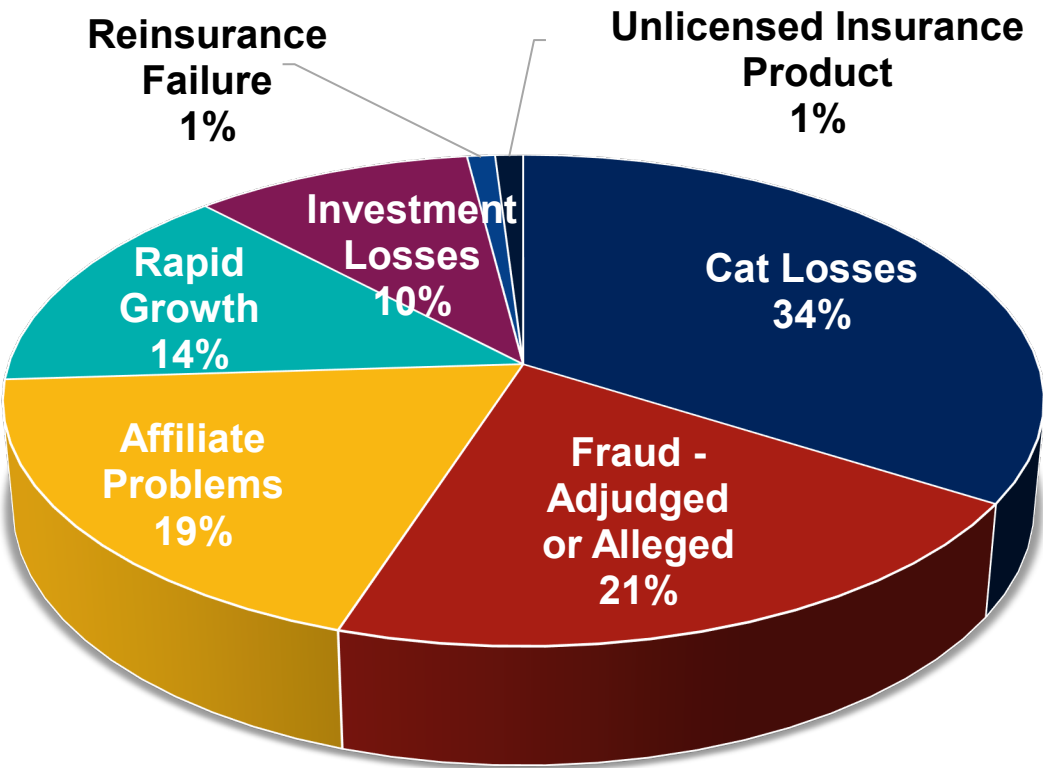


Observations – EIOPA

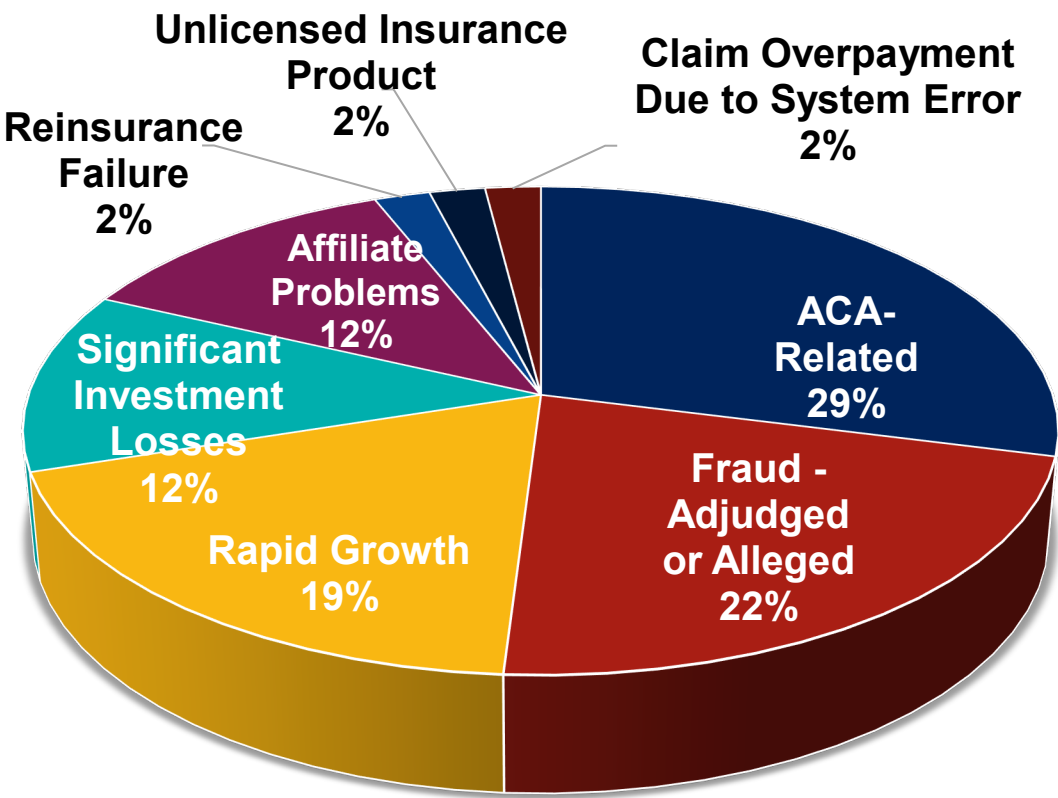
Life Non-Life	
Top 5 primary causes of failures and near misses (EU)	
Management & staff competence risk	Technical provisions – evaluation risk
Investments / ALM risk	Internal governance & control
Market risk	Management & staff competence risk
Technical provisions – evaluation risk	Underwriting risk
Economic cycle / condition risk	Accounting risk

Observations – AM Best

US Property/Casualty Impairments



US Life/Health Impairments



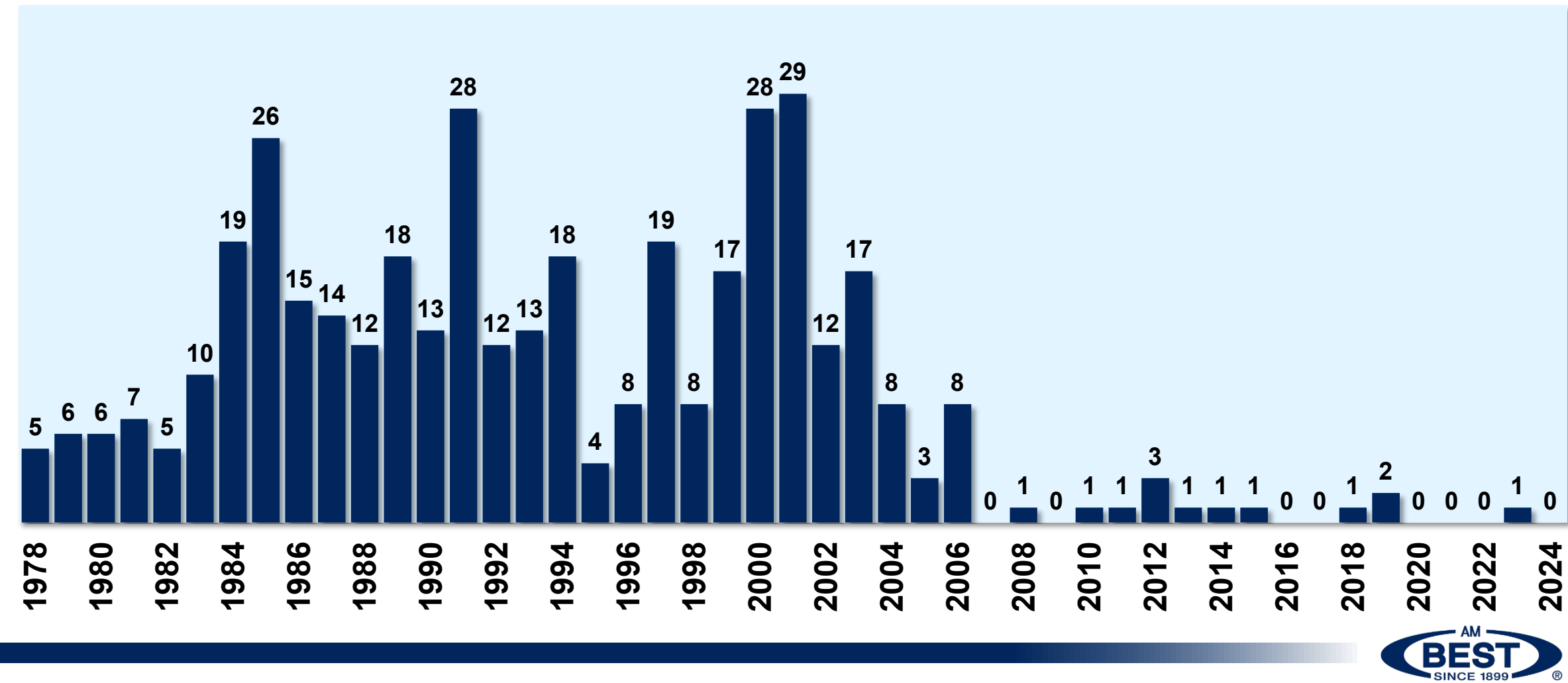
2000-2023

Based on US data.
Sources: AM Best “2023 US Property/Casualty Impairments Update”
and “2023 US Life/Health Impairments Update” (both January 2025)



Impairments of US AM Best-Rated Insurers

US Property/Casualty and Life/Health – Number of Impairments by Year



Why Have AM Best-Rated Impairments Declined?



Improved risk management practices led to significant improvements in stability and performance over last 15-20 years

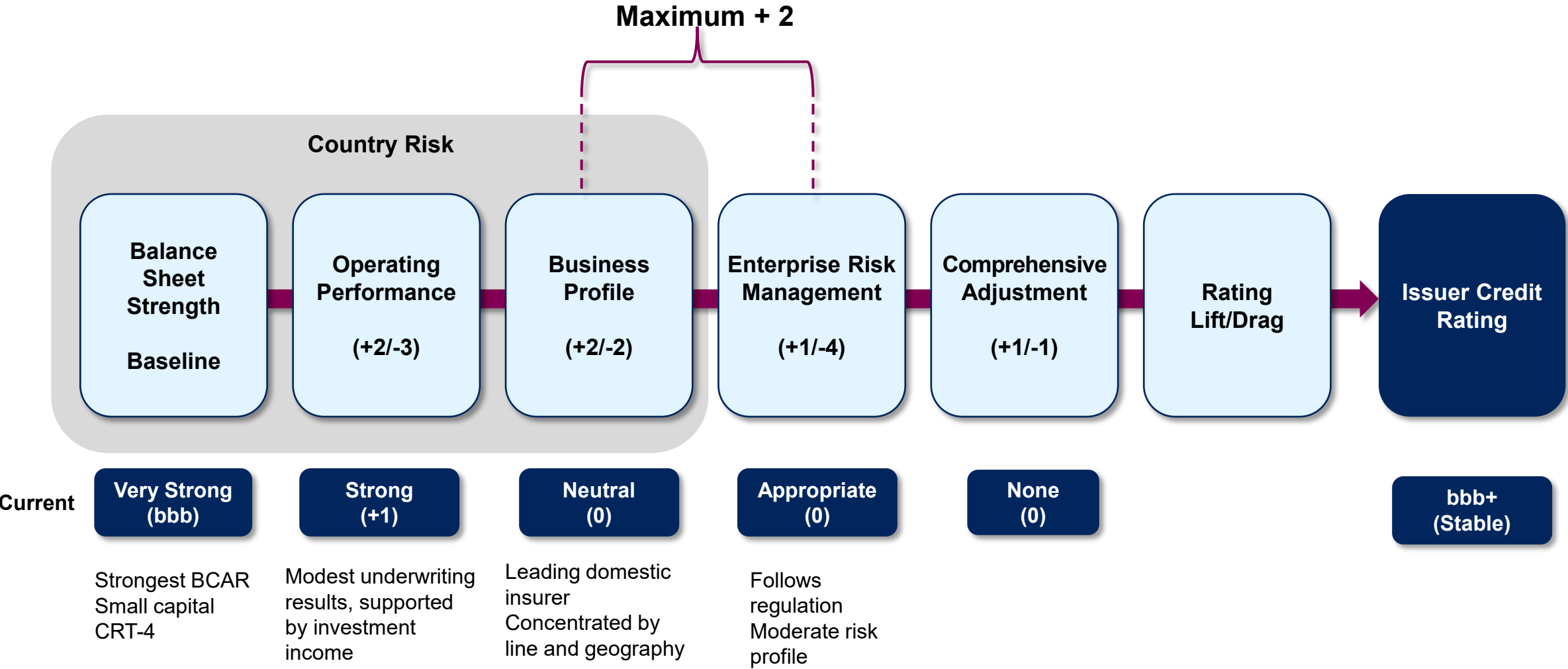


Regulatory and supervisory enhancements



Refinements to AM Best's criteria have raised awareness in the industry and helped insurers manage their exposures

Synthetic Case Study – Brenix Property Insurance Co. Ltd.



Synthetic Case Study – Brenix Property Insurance Co. Ltd.

Company developments

Premium growth significantly ahead of the market, in its main line, property

A rise in attritional loss ratio, exacerbated by negative reserve development

Increased retention limits on catastrophe reinsurance cover, following market hardening

The BCAR scores drop significantly due to an operating loss and higher net PMLs

Warning signs

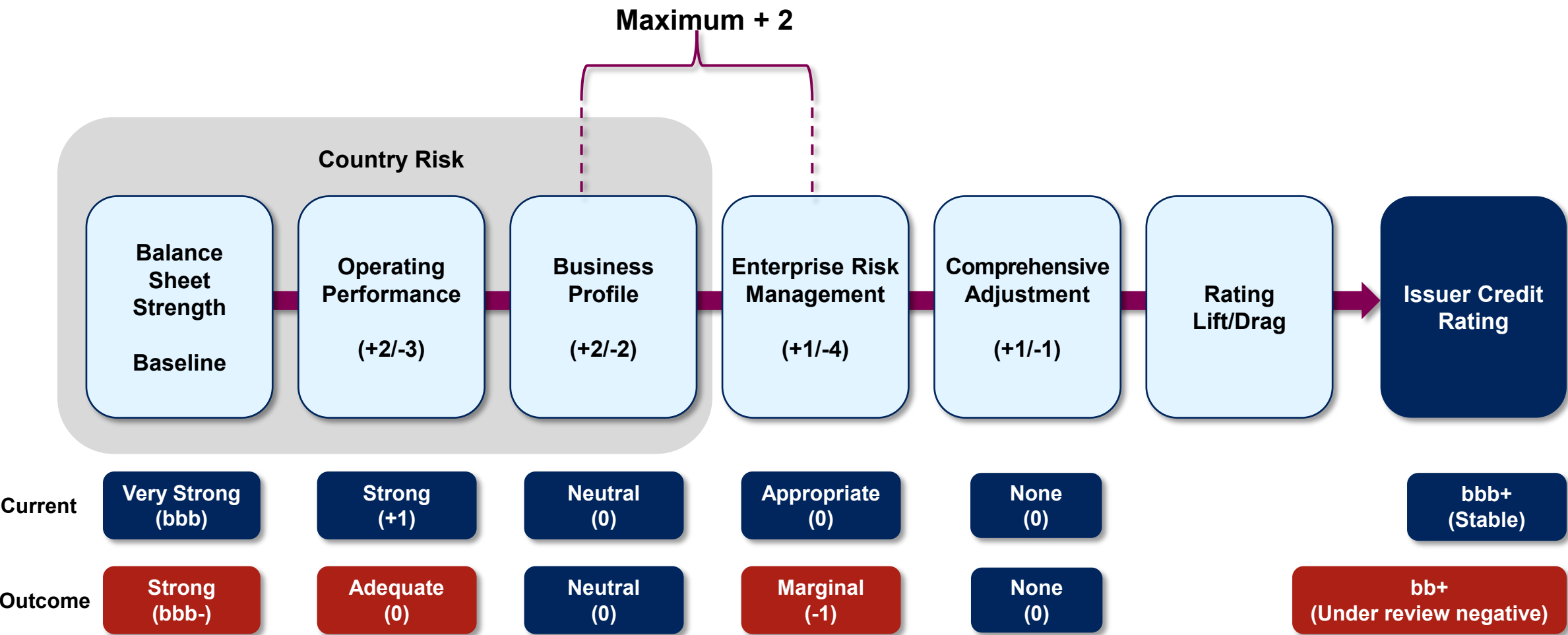
Potential under-pricing. High product concentration limits flexibility

The deterioration in the performance is likely to prolong, given reserve deficiencies

Higher net limits could increase future performance volatility

Concerns with capital management and capital sustainability

Synthetic Case Study – Brenix Property Insurance Co. Ltd. – Rating Action 1



Synthetic Case Study – Brenix Property Insurance Co. Ltd.

Company developments

The CEO resigns; replaced by an executive with an insurance agency background

The regulator suspends company's licence due to breach of capital requirements

The company has delayed the provision of its financial information

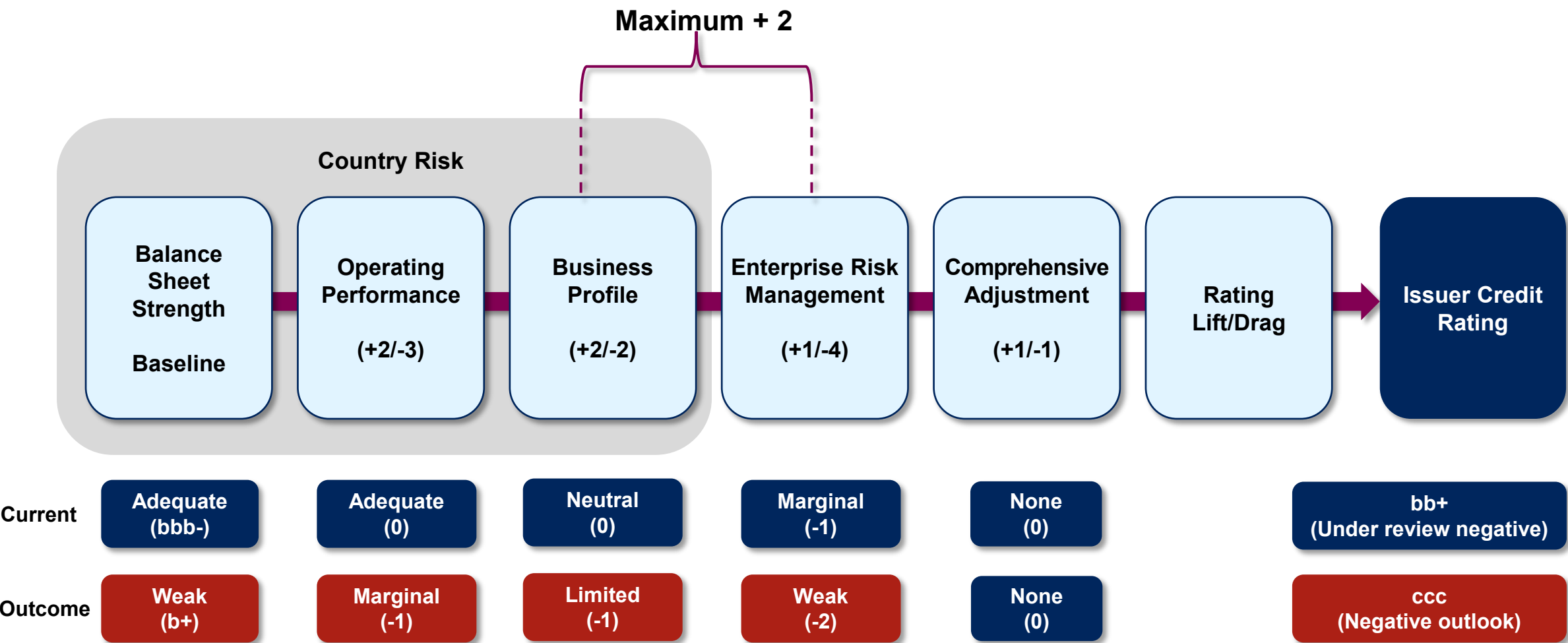
Warning signs

The new CEO lacks relevant expertise – unlikely to turn the business around

Path to remediation narrows further; reputational damage due to loss of licence

Poor communication and data quality suggest further issues

Synthetic Case Study – Brenix Property Insurance Co. Ltd. – Rating Action 2



How Enterprise Risk Management Fits into the Rating Assessment

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

Stress Testing – What is Relevant?

BCAR Analysis

Natural catastrophes
Cyber
Investment
Liquidity stress

Sovereign default
Excessive growth
Inadequate reserves
Pandemic

ERM Assessment

Stress testing
Sensitivity analysis
Non-modelled risks
Reverse stress tests

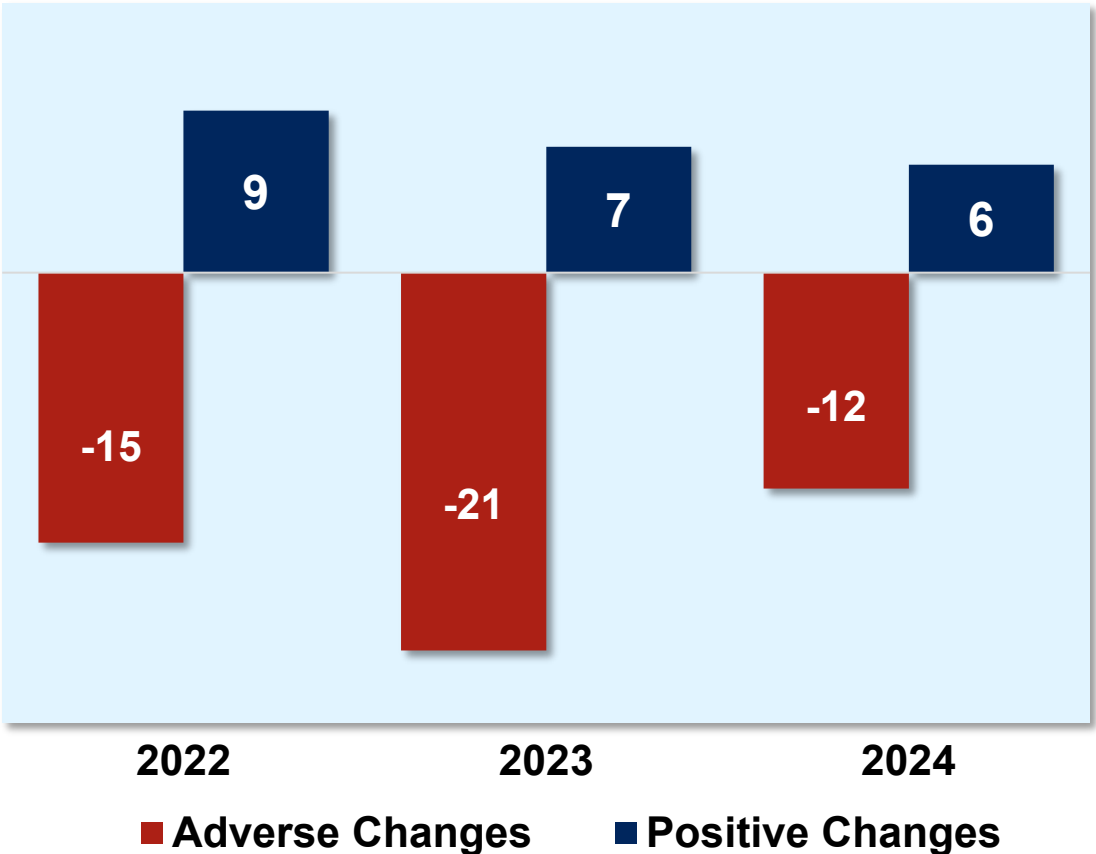
Think “outside the box”
Gaps and vulnerabilities

Management Dialogue

Emerging risks
Risk appetite
Lessons learnt
Hot topics

Strategic view
Contingency plans

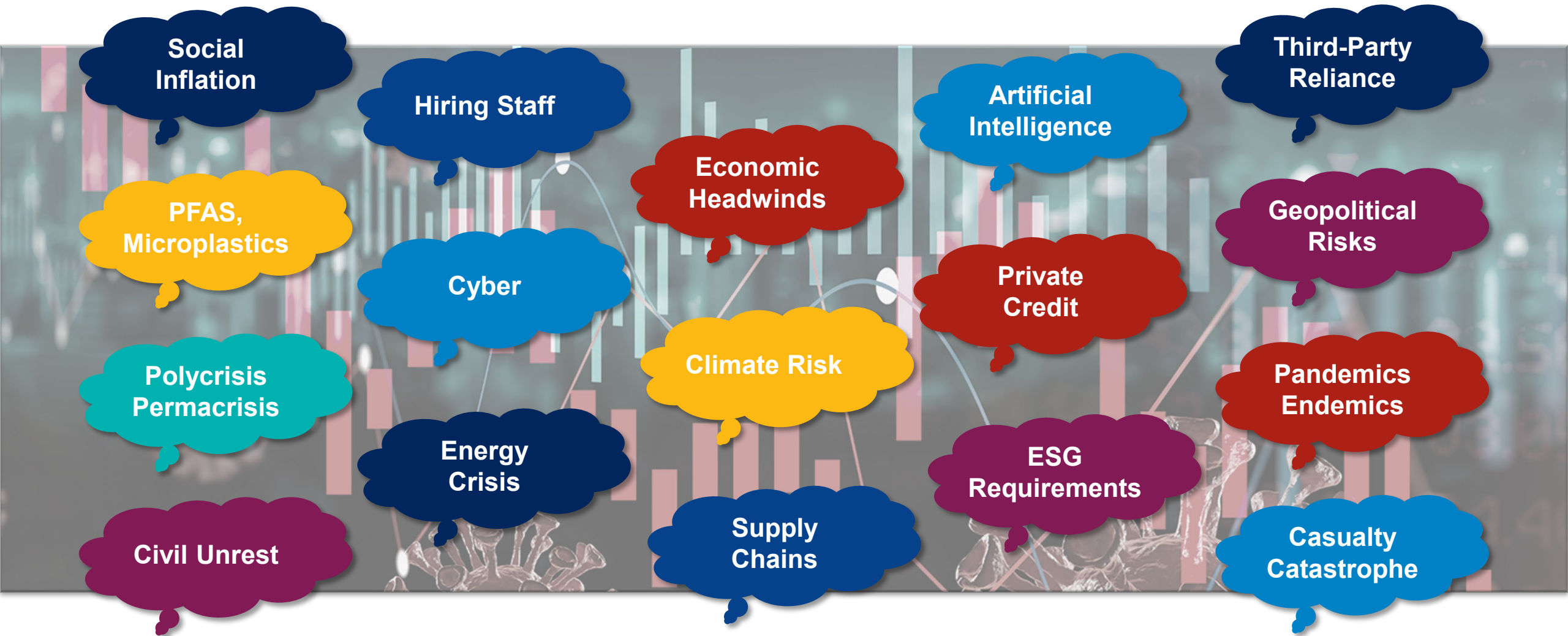
Changes in AM Best's Enterprise Risk Management Assessments



Themes of adverse changes
Elevated country risk
Regulatory and solvency issues
Capital management issues
Significant delays in financial reporting
Underwriting controls
Fraud
Reputational damage

Notes:
Chart shows number of companies for which AM Best's ERM assessment changed.
Data covers AM Best's global rating population.

Risks – Current and Emerging



Q&A

**Valeria Ermakova, Associate Director, Credit Rating
Criteria Research & Analytics
Stanislav Stoev, ACCA, CFA, Senior Financial Analyst**

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IFRS 17: Latest Observations

Ben Diaz-Clegg, Associate Director, Analytics
Todor Kitin, Associate Director, Analytics

Key Observations on Reporting and Disclosures

Consequences of IFRS 17 Reporting

Combined Ratio

Loss ratio	Expense ratio
Incurred claims Changes to past services	Insurance acquisition cash flows amortisation
Onerous contracts	Non-Attributable Expenses
Directly attributable expenses	
Combined ratio	

- Attributable expenses are often reported together with incurred claims
- This makes the loss ratio and expense ratio individually less relevant

Segmental Reporting

PAA	GMM
	Non-life contracts Life contracts
	Insurance contracts Reinsurance contracts

- PAA and GMM measured business could include both non-life and life business
- Life/non-life splits are sometimes available as an optional management disclosure, though without roll-forward tables meaningful analysis is difficult
- Contract boundary mismatch

Benefits of IFRS 17 Reporting

Disclosures

Development triangles

Roll forward tables

- In many cases, triangles show development of the undiscounted best estimate liability (BEL) only
- Provides greater insight of BEL adequacy without the noise of unallocated management margins
- Prior year development and the release of risk margins are now easily identifiable

Accounting recognition

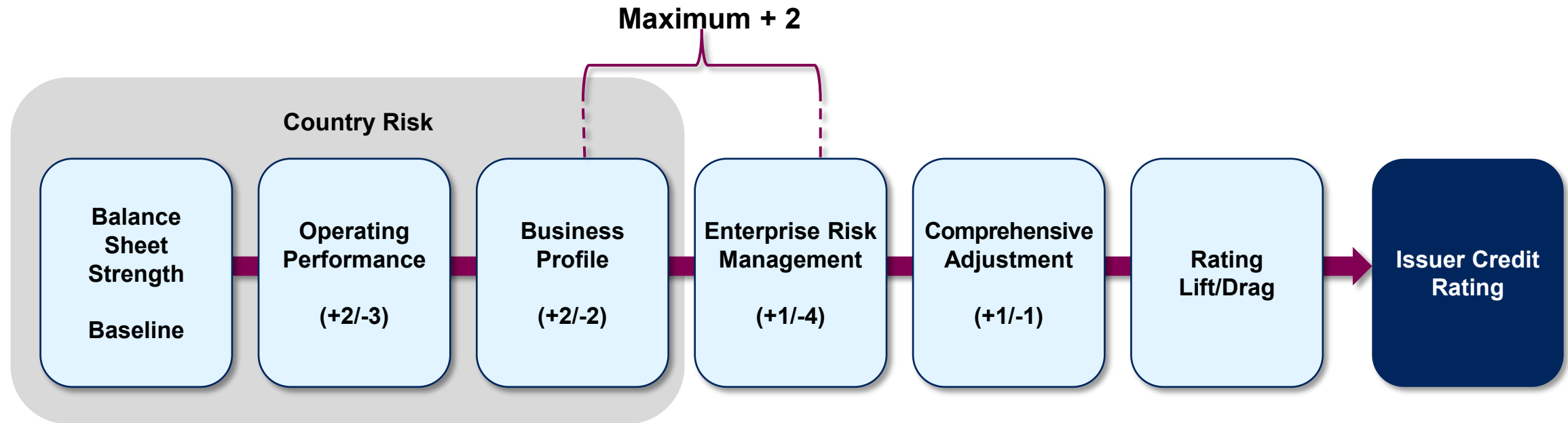
Onerous contracts

Life revenue

- Mandatory recognition of onerous contracts – loss making contracts can no longer be hidden by profitable business
- Life revenue recognition – provides a more meaningful indication of performance

Impact on Rating Analysis

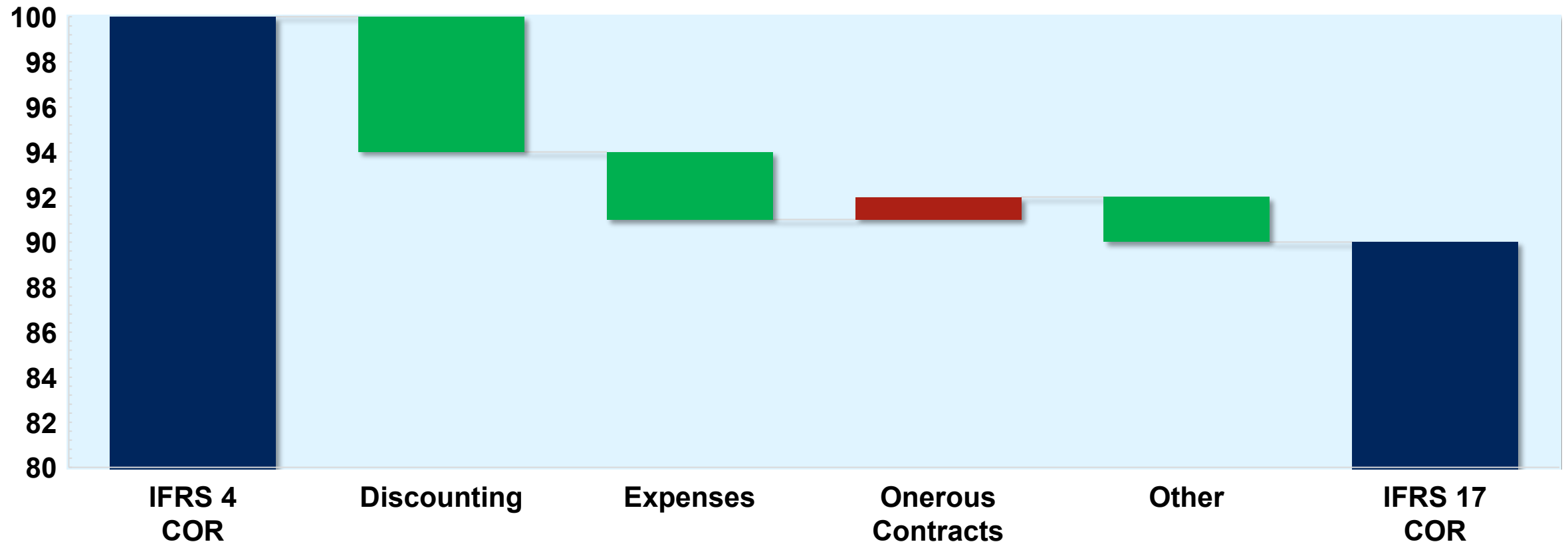
Impact on AM Best's Rating Analysis



- AM Best uses a building block approach to assess a (re)insurer's financial strength
- AM Best already rates (re)insurers who report under a variety of standards and audited financial statements are a key input to the rating process
- Changes in reporting do not mean changes in financial strength. The rating process should be agnostic to accounting standards
- However, new presentation of the underlying information can lead to new insights and new challenges in financial strength analysis

Similar But Different Performance Metrics

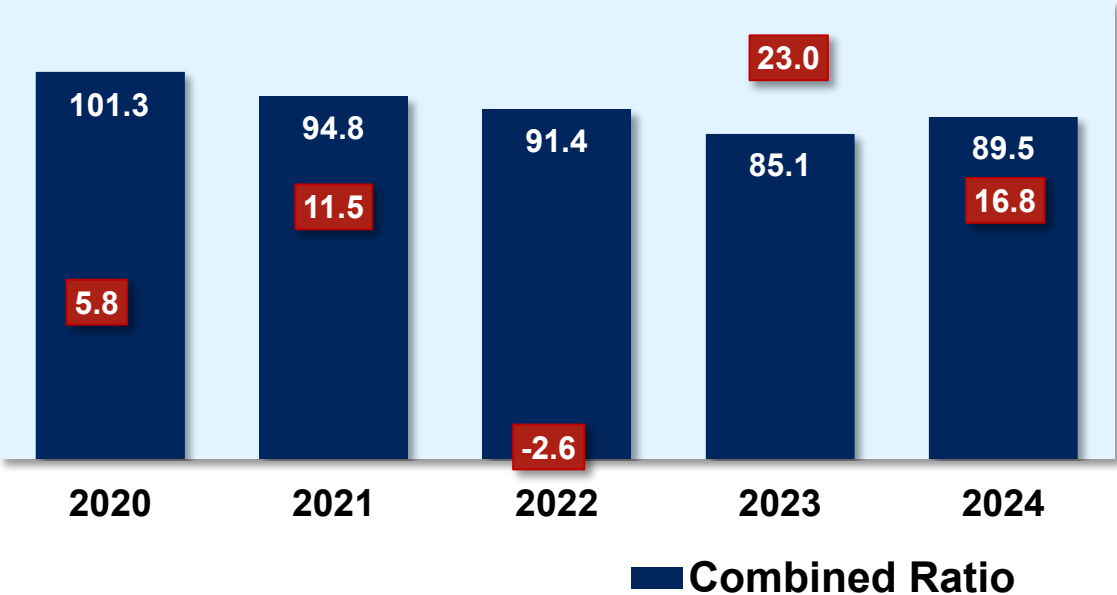
Favourable Movements in Combined Ratio



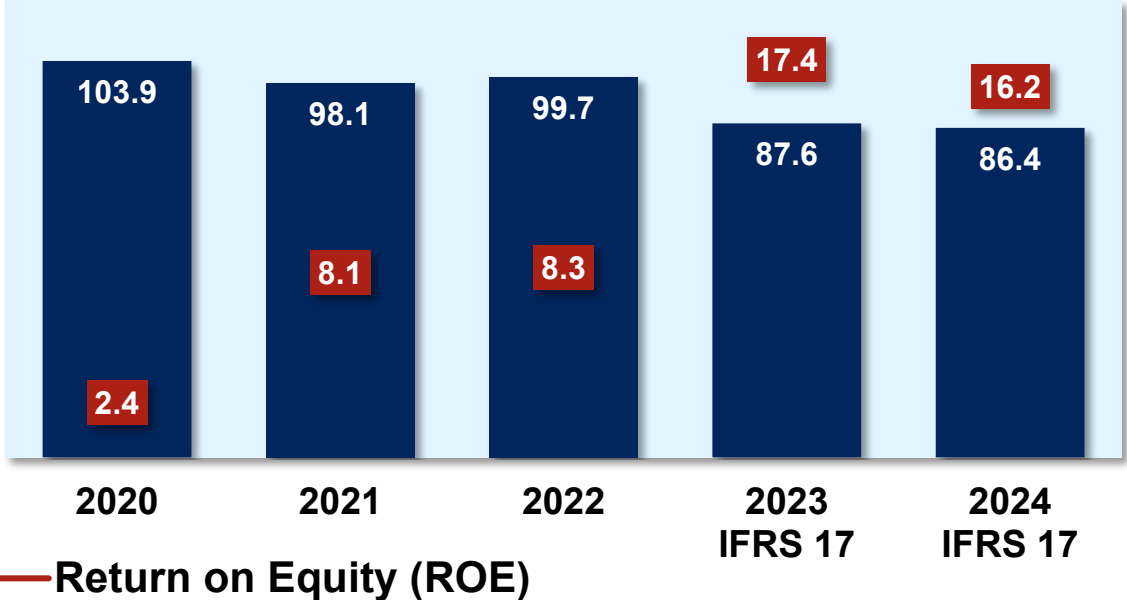
Spotlight on Reinsurers

Segment Comparison

US & Bermuda Reinsurers



European “Big Four” Reinsurers



Discount Effect of 6-9% Points*

Notes: US & Bermuda Reinsurers includes: Arch, Gen Re, Everest, Ren Re, Transatlantic Re, Odessey Re, Partner Re. European “Big Four” Reinsurers includes: Munich Re, SCOR, Hannover Re and Swiss Re.
* As reported in investor presentations for 2024 and projected for 2025

Similar But Different Performance Metrics

Return on Equity (ROE)

- Reported IFRS equity has (typically) declined for (re)insurers with significant life books
- ROE typically better for life IFRS 17 reporters
- Life revenues are recognised through the life of the contract with future value instead recognised in the contractual service margin (CSM)

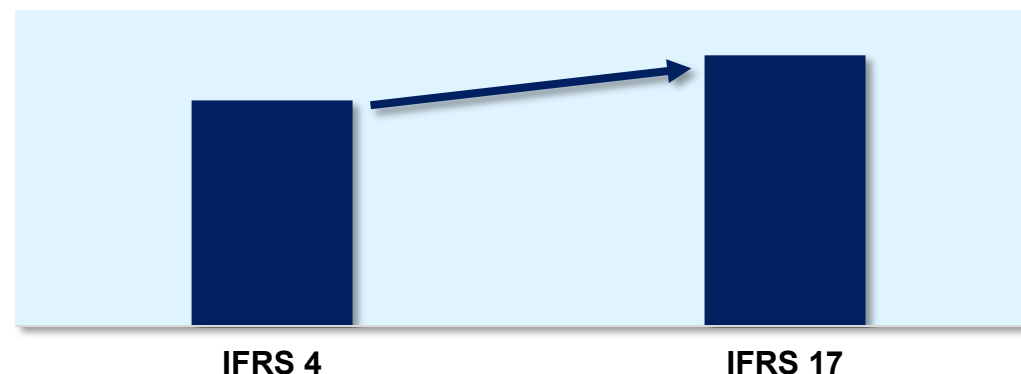
Release of margin of prudence and creation of risk adjustment (RA)

Creation of life CSM

Changes in discount rates

Accounting factors depending on book of business (e.g. guarantees)

Return on Equity (Income/IFRS Equity)



IFRS 17 Impact on Rating Analysis – Treatments in BCAR

**Life Contractual
Service Margin
(CSM)**

**Life Net Risk
adjustment (RA)**

**No impact on
required capital**

**Partial Equity
credit in available
capital**

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

**Life net
CSM**

Life Net Risk Adjustment



Haircut

**Equity Credit in
BCAR
Available
Capital**

**Net EV
LtB***

IFRS 17 Impact on Rating Analysis – Treatments in BCAR

Non-life reserving

Reported reserves are discounted to their present value recognising the time value of money and adjusted for AM Best's view of any reserve deficiency

Adjustments to discount factors may be appropriate. For example, if a rating unit's payout pattern is materially different from the industry payout pattern

Other discount rates may be used when AM Best's long-term view of the risk-free rate for the jurisdiction the rating unit operates in differs materially from 4%

IFRS 17 Impact on Rating Analysis – Treatments in BCAR

Pricing risk

Net insurance services revenue (net ISR) replaces non-life net written premium (NWP) on the financial statements

Present value of cash inflows for GMM/VFA life business replaces life NWP on the financial statements

Adjustments to net ISR may be necessary to derive appropriate base for charging pricing risk. For example:

Seasonality

Non-contingent commissions

Q&A

Ben Diaz-Clegg, Associate Director, Analytics
Todor Kitin, Associate Director, Analytics

Use the QR code to submit questions to our speakers



Convene 200 Aldersgate, St.Paul's - London

AM Best's Europe Insurance Market Briefing & Methodology Review Seminar - London



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