

Our Insight, Your Advantage™

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National Scale Ratings: Frequently Asked Questions

AM Best's

National Scale
Rating is a relative
measure of
financial strength

General

What benefit does a National Scale Rating provide?

A National Scale Rating (NSR) is a relative measure of the financial strength of insurers and reinsurers that are domiciled in the local market. The NSR focuses on local insurance market characteristics and allows for a more appropriate comparison among domestic market participants, which, over time, should allow for greater differentiation among them. An NSR significantly reduces the impact of country risk evident in the global Issuer Credit Rating (ICR), particularly for Country Risk Tiers (CRTs) 3 to 5.

Do any countries already have an NSR?

Yes. NSRs have been assigned for Egypt, India, Indonesia, Mexico, the Philippines, and Vietnam.

Are there plans to introduce NSRs for other countries?

AM Best considers assigning NSRs to new countries every year. Please refer any requests for new NSRs to AM Best's *Market Development Team*.

When can an NSR be assigned?

An NSR is assigned at the request of an insurer or reinsurer. A full review of the company's rating fundamentals on the global ICR scale must take place and be presented to the rating committee, to determine the global ICR from which the NSR is translated using published tables.

Where can I find the NSR tables?

The NSR tables are in *Best's National Scale Ratings* criteria procedure, Exhibits D1 to D6.

Will AM Best publish only an NSR?

Any NSR published by AM Best will be accompanied by a public, global ICR, as well as a Financial Strength Rating (FSR) when applicable.

Can an FSR be mapped to an NSR?

No. An NSR should not be mapped directly from an FSR. The analytical fundamentals are based on the global ICR, which should be used for translating the rating into an NSR.

Are rating outlooks applied to an NSR, and can they differ from the global ICRs?

Typically, an NSR will have the same outlook as the global ICR. In certain cases, the outlooks may differ—for instance, when the change in the global ICR does not affect the NSR. For example, a global ICR of “bbb+” with a “Positive” outlook in India, would translate to an NSR of “aaa.IN” with a “Stable” outlook.

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Can NSRs be placed under review independent of the global ICR?

Yes. Typically, an NSR will have the same under review status as the global ICR. However, in certain cases, the under review status may differ. A global ICR may be unaffected by an event, but the NSR in the global ICR band does have the potential to change.

Can an NSR be rated on a private basis?

Yes. An NSR can be rated on a private basis. In most cases, the associated ratings on the ICR and FSR will also be private.

Is a company excluded from getting an NSR if most of its business is outside its domicile?

No. An NSR can be assigned to any (re)insurer that is domiciled in a jurisdiction to which AM Best applies an NSR.

Can a company that generates a significant portion of its business in an NSR-eligible country that is not domiciled in that country be eligible for an NSR?

No. NSRs can be assigned only to companies or subsidiaries that are domiciled in that country.

Assessing and Calibrating NSRs

How are NSR-ICR mappings derived?

An initial NSR mapping is developed through a largely quantitative process. Analytical judgment is then used, if necessary, to adjust the initial output to better achieve the aim of generating a scale that can discern the relative financial strength of (re)insurers in a given market.

Can AM Best's NSRs be compared to other credit rating agencies' NSRs?

No. The calibration of an NSR is specific and unique to AM Best and focuses solely on the insurance industry. NSRs cannot be compared directly to other credit rating agencies' NSRs, as they all have different approaches to calibration.

Can an NSR in one country be compared to an NSR in another country?

No. The calibration of an NSR is specific and unique to a country based on the market characteristics of that country. For example, an NSR for Egypt cannot be compared to an NSR for India.

When can an NSR change?

An NSR can change when the global ICR of the (re)insurer changes, or the NSR translation table changes, or the rating committee's assessment of the NSR changes, whereby a global ICR corresponds to more than one NSR. All changes would be accompanied by a public announcement.

What analytical process does a company need to go through to obtain an NSR?

The NSR is translated from the global ICR. A full review of the company's ratings fundamentals, as detailed in *Best's Credit Rating Methodology*, to determine the global ICR would be needed. If there are one-to-many corresponding NSRs between the assigned global ICR and the NSR, a rating committee will determine the appropriate NSR that places the rated company in the context of the local market.

If the company has an existing global ICR rating, can it obtain an NSR?

Yes. However, before an NSR can be assigned, the global ICR needs to be updated.

How often are translation tables for NSRs updated?

NSR mappings are reviewed annually at a minimum, or more frequently as needed, to reflect market conditions and business. For example, the country's NSR mapping could change if the metrics used in the calculation change materially or the country's operating environment changes significantly. However, we expect the translation tables to be relatively stable.

Can two companies have the same global ICR but a different NSR?

Yes. In certain cases, the global ICR can include one-to-many corresponding NSRs. The rating committee determines which of the possible NSRs will be assigned to the company.

Country Risk

Can country risk influence the NSR?

The impact of country risk is significantly reduced when considering the NSR, as it is a relative measure of a company against its peers in its market. Country risk is an important component of the global ICR assessment.

Can NSRs be assigned to (re)insurers domiciled in CRT-1/CRT-2 countries?

Yes. At present, however, no NSRs are available for CRT-1 or 2 countries.

What would happen in the event of a sudden deterioration in the sovereign rating?

NSRs are meant to be stable over time unless there is a fundamental shift in the underlying environment affecting the financial strength of insurers in a country. A significant change in the sovereign rating is one of the factors AM Best would consider when assessing whether such a fundamental shift has occurred.

Why do NSR mappings differ for countries in the same CRT?

An NSR mapping is based on the market characteristics of a specific insurance market and not on a country's CRT. The characteristics of different insurance markets in a CRT may vary widely from one country to the next.

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Best's Financial Strength Rating (FSR): an independent opinion of an insurer's financial strength and ability to meet its ongoing insurance policy and contract obligations. An FSR is not assigned to specific insurance policies or contracts.

Best's Issuer Credit Rating (ICR): an independent opinion of an entity's ability to meet its ongoing financial obligations and can be issued on either a long- or short-term basis.

Best's Issue Credit Rating (IR): an independent opinion of credit quality assigned to issues that gauges the ability to meet the terms of the obligation and can be issued on a long- or short-term basis (obligations with original maturities generally less than one year).

Best's National Scale Rating (NSR): a relative measure of credit-worthiness in a specific local jurisdiction that is issued on a long-term basis and derived exclusively by mapping the NSR from a corresponding global ICR using a transition chart.

Rating Disclosure: Use and Limitations

A Best's Credit Rating (BCR) is a forward-looking independent and objective opinion regarding an insurer's, issuer's or financial obligation's relative creditworthiness. The opinion represents a comprehensive analysis consisting of a quantitative and qualitative evaluation of balance sheet strength, operating performance, business profile, and enterprise risk management or, where appropriate, the specific nature and details of a security. Because a BCR is a forward-looking opinion as of the date it is released, it cannot be considered as a fact or guarantee of future credit quality and therefore cannot be described as accurate or inaccurate. A BCR is a relative measure of risk that implies credit quality and is assigned using a scale with a defined population of categories and notches. Entities or obligations assigned the same BCR symbol developed using the same scale, should not be viewed as completely identical in terms of credit quality. Alternatively, they are alike in category (or notches within a category), but given there is a prescribed progression of categories (and notches) used in assigning the ratings of a much larger population of entities or obligations, the categories (notches) cannot mirror the precise subtleties of risk that are inherent within similarly rated entities or obligations. While a BCR reflects the opinion of A.M. Best Rating Services, Inc. (AM Best) of relative creditworthiness, it is not an indicator or predictor of defined impairment or default probability with respect to any specific insurer, issuer or financial obligation. A BCR is not investment advice, nor should it be construed as a consulting or advisory service, as such; it is not intended to be utilized as a recommendation to purchase, hold or terminate any insurance policy, contract, security or any other financial obligation, nor does it address the suitability of any particular policy or contract for a specific purpose or purchaser. Users of a BCR should not rely on it in making any investment decision; however, if used, the BCR must be considered as only one factor. Users must make their own evaluation of each investment decision. A BCR opinion is provided on an "as is" basis without any expressed or implied warranty. In addition, a BCR may be changed, suspended or withdrawn at any time for any reason at the sole discretion of AM Best.