March 24, 2025

Best's
Methodology and Criteria

DRAFT: Best's National Scale Ratings

Ann Modica
908 882 2127
Ann.Modica@ambest.com

Graziano Brady
+44 207 397 0321
Graziano.Brady@ambest.com

Myles Gould
+44 207 397 0304
Myles.Gould@ambest.com

AM BEST SINCE 1899®
Our Insight, Your Advantage™

Best's National Scale Ratings

Outline

A. Introduction
B. Country Risk and National Scale Ratings
C. Constructing the National Scale Mapping
D. National Scale Ratings in the Rating Process

The following criteria procedure should be read in conjunction with *Best's Credit Rating Methodology (BCRM)* and all other BCRM-associated criteria procedures. The BCRM provides a comprehensive explanation of AM Best's rating process.

A. Introduction

A Best's Issuer Credit Rating (ICR) is a global rating that is an independent opinion of an entity's ability to meet its ongoing financial obligations that allows for the comparison of insurers across all countries by using the same credit scale. By contrast, a Best's National Scale Rating (NSR) is a relative opinion of an insurance company's financial strength within a single country. The unique features of an NSR and the analysis associated with its assignment are discussed within this criteria procedure.

All insurers that enter Best's NSR process are first assigned a global ICR. Since an NSR provides a relative opinion of financial strength among insurers within a single country, an NSR assigned to an insurer in one country is not comparable to an NSR assigned to an insurer in another country. Therefore, global impairment statistics cannot be directly compared to impaired companies on a national scale. However, since a global ICR is assigned as the basis for the NSR, impairment rates can be inferred.

NSRs were created to address the concern that country-specific limiting factors the industry faces—including economic, political, and financial system risks, and other insurance industry factors—can create less differentiation and result in: 1) using only a particular section of the rating scale and 2) ratings that are grouped tightly. NSR allows for maximum differentiation among insurers operating in a given country.

NSRs are offered in selected countries that have sufficient available market data. These countries tend to be in Country Risk Tiers (CRT) 3 through to 5, although an NSR can be assigned in any CRT.

B. Country Risk and National Scale Ratings

Country risk is the risk that factors specific to a country could adversely affect the ability of an insurer operating in that country to meet its financial obligations. Country risk, along with industry-related risks, has an impact on the financial strength of the overall insurance industry in a specific country. Since an NSR is a relative measure of insurers' financial strength within a country, the macro-level risks that impact all insurers operating in the country—such as limited access to secure investable assets and limited industry maturity and/or regulation—are no longer rating differentiators, as insurers are typically subject to the same country risks.

As stated previously, the assignment of an NSR is derived from the global ICR, which incorporates country risk. Therefore, the NSR captures the extent to which a particular insurer can mitigate and manage its country risk exposures. A company that manages its country risk exposure better would be relatively stronger and would have a higher NSR, all else being equal.

C. Constructing the National Scale Mapping

NSRs are constructed individually based on the financial characteristics of insurers that are domiciled in that country, although two different countries may have the same national scale. As the degree of country risk increases, the distribution of ratings on the global ICR scale within that country moves farther away from the top end of the global scale. The strength of the insurance market participants and the creditworthiness of governments are assessed to arrive at the national scale mapping. Public data is used to analyze the active insurance companies domiciled within the market to determine the distribution of financial strength within the country's insurance market.

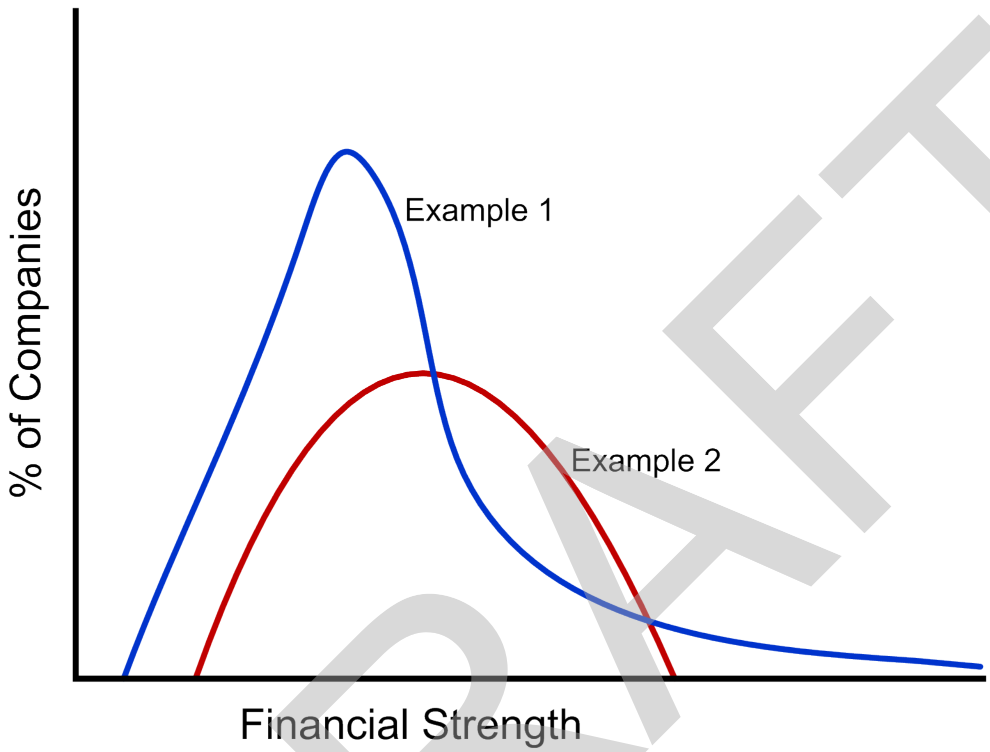
The evaluation of the distribution of financial strength in a country is assessed through nine individual factors based on financial reports:

1. Reported Capital and Surplus
2. Ratio of Cash & Fixed Income Investments to Total Investments
3. Gross Leverage Ratio: (Gross Premiums Written + Gross Technical Provisions)/(Capital & Surplus)
4. Reported Gross Premiums Written
5. Return on Equity
6. Return on Assets
7. Retention Ratio: Net Premiums Written/Gross Premiums Written
8. Combined Ratio: Incurred Loss & Loss-Adjustment Expense [LAE] Ratio + Underwriting Expense Ratio
9. Reported Assets

The industry average for each of these factors is calculated for the country being evaluated. Each insurer operating within this market is evaluated based on distance from the industry average for each factor. This process is based on three-year averages, and the result is a country-specific distribution of financial strength. AM Best may use, where appropriate, other financial indicators or definitions subject to financial reporting requirements in that country.

Markets can have different distributions of financial strength. A common distribution is a small number of market leaders that are relatively stronger than the market as a whole (Example 1). Another common distribution is a large group of companies clustered around a similar global ICR level (Example 2). **Exhibit C.1** illustrates these two potential distributions of financial strength.

Exhibit C.1: Examples of Financial Strength Distributions in Different Markets



An understanding of the shape of this distribution allows AM Best to efficiently spread out the global ICR curve within a country. This allows for maximum use of the national rating scale within that country, thus creating the greatest degree of differentiation among national market participants.

This approach to the creation of an NSR is consistent with AM Best's belief that country factors, while clearly important and able to negatively affect an insurer's global ICR, should not act as a ceiling to companies on the global ICR scale.

D. National Scale Ratings in the Rating Process

As stated previously, the analysis of an insurer begins with the assignment of a global ICR. This global ICR is then "mapped" to an NSR based on the country-specific national scale mapping that has been developed for the insurer's country of domicile. In cases where one global ICR level maps to more than one NSR, a rating committee will decide which level, in accordance with the mapping, is appropriate given the relative financial strength of the insurer. To denote the difference between a Best's global ICR and a Best's NSR, the NSR will have an ".XX" where XX represents a two-letter country code. **Exhibit D.1** shows an illustrative example of a country-specific national scale mapping.

Best's National Scale Ratings

Please refer to *Best's National Scale Mappings* for the country-specific national scales applicable to this criteria procedure.

Changes to the National Scale Rating

An insurer's NSR can change for three primary reasons:

1. The analysis of the insurer's financial strength leads to a change in that insurer's global ICR.
2. The country- and/or industry-specific characteristics lead to a change in the overall national scale mapping for the country of domicile.
3. A change in the rating committee's assessment of the NSR, where a global ICR corresponds to more than one NSR.

Exhibit D.1: Illustrative Example of a Country-Specific National Scale Mapping

Global ICR Scale	Country National Scale
bbb or above	aaa.XX
bbb-	aa+.XX
bb+	aa.XX
bb	aa- to a+.XX
bb-	a.XX to a-.XX
b+	bbb+.XX
b	bbb.XX to bbb-.XX
b-	bb+.XX to bb.XX
ccc+	bb-.XX to b.XX
ccc	b-.XX to ccc+.XX
ccc-	ccc.XX
cc	ccc-.XX to cc.XX
c	c.XX

Published by A.M. Best Rating Services, Inc.

METHODOLOGY AND CRITERIA

A.M. Best Rating Services, Inc.
Oldwick, NJ
PRESIDENT **James Gillard**
EXECUTIVE VICE PRESIDENT & COO **Stefan W. Holzberger**
EXECUTIVE VICE PRESIDENT & CSO **Andrea Keenan**
EXECUTIVE VICE PRESIDENT & CIO **James F. Snee**
SENIOR MANAGING DIRECTOR & CHIEF RATING OFFICER **Kenneth Johnson**
SENIOR MANAGING DIRECTOR **Edward H. Easop**

AMERICAS
WORLD HEADQUARTERS
A.M. Best Company, Inc.
A.M. Best Rating Services, Inc.
1 Ambest Road, Oldwick, NJ 08858
Phone: +1 908 439 2200

MEXICO CITY
A.M. Best América Latina, S.A. de C.V.
Av. Paseo de la Reforma 412, Piso 23,
Col. Juárez, Alcadía Cuauhtémoc, C.P. 06600, México, D.F.
Phone: +52 55 1102 2720

EUROPE, MIDDLE EAST & AFRICA (EMEA)
LONDON
A.M. Best Europe - Information Services Ltd.
A.M. Best Europe - Rating Services Ltd.
12 Arthur Street, 8th Floor, London, UK EC4R 9AB
Phone: +44 20 7626 6264

AMSTERDAM
A.M. Best (EU) Rating Services B.V.
NoMA House, Gustav Mahlerlaan 1212, 1081 LA Amsterdam, Netherlands
Phone: +31 20 308 5420

DUBAI*
A.M. Best Europe - Rating Services Ltd. - DIFC Branch*
Office 102, Tower 2, Currency House, DIFC
P.O. Box 506617, Dubai, UAE
Phone: +971 4375 2780
*Regulated by the DFSA as a Credit Rating Agency

ASIA-PACIFIC
HONG KONG
A.M. Best Asia-Pacific Ltd
Unit 4004 Central Plaza, 18 Harbour Road, Wanchai, Hong Kong
Phone: +852 2827 3400

SINGAPORE
A.M. Best Asia-Pacific (Singapore) Pte. Ltd
6 Battery Road, #39-04, Singapore
Phone: +65 6303 5000

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 creditworthiness 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.

AM BEST SINCE 1899 ®

Version 011624