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Contents of this booklet are as of February 2019 but remain subject to change. Please visit www.ambest.com/ratings for all our most current reports and rating information.
FOREWORD
Economic growth across Africa continues to act as a stimulus for development of the (re)insurance industry, with the continent remaining a powerhouse as strong global demand for commodities and resources continues.

In AM Best’s view, the African (re)insurance market offers diversification opportunities for regional and international reinsurers. The expansive and varying economies of the 54 African nations means growth is not uniform and universal. However, it is evident that industrial activity has increased, and household incomes continue to rise rapidly, though from a low base.

Insurance penetration rates in the region are expected to increase gradually as a consequence of growing investment in infrastructure following the discovery of natural resources, and foreign direct investment is forecast to rise following the resources boom. Reinsurers are likely to see more opportunities to underwrite construction and engineering risks in the short-to-medium term.

In recent years, much of the region has faced high inflation, currency devaluation, and electoral disputes that have caused instability in some economies. Nevertheless, some countries have prospered amid the challenging market conditions. For regional players in particular, the ability to innovate, attract technical expertise, and subsequently execute strategic objectives will determine how successfully (re)insurers can capitalise on the market’s opportunities.

The technological developments being implemented within the marketplace are likely to impact insurers positively and, subsequently, reinsurers, through an increase in premium volumes. The improvements in mobile technology, applications, and telecommunication infrastructure will allow a wider audience to access insurance cover and gradually bring down the current barriers to purchasing insurance. In addition, the introduction of these technologies will translate into claims management efficiencies; in particular, through reducing potential fraud within the marketplace as automated, real-time databases replace manual paperwork.

AM Best has existing interactive rating relationships with over 3,500 entities in over 90 countries worldwide, including with a growing number of insurers and reinsurers in Africa, through Financial Strength and Issuer Credit Ratings. African reinsurers have led the demand for ratings as they seek greater international diversification, while direct insurers require ratings, in part to enable the underwriting of large contracts, with many related to oil and gas or infrastructure projects.

The focus of AM Best’s methodology is on the strength of a (re)insurance company in the first instance. For this reason, rather than applying a blanket sovereign ceiling to all insurers in a country, the risk that country-specific factors could adversely affect an insurer’s ability to meet its financial obligations, is evaluated and factored into all AM Best’s ratings. The impact of country risk is assessed during the review of balance sheet strength, operating performance, and business profile. It should be noted that AM Best does not produce Sovereign Ratings and does not apply “caps” to ratings.

In recent years, the regulatory environment in the region has been steadily evolving toward a risk-based framework, although the extent of change varies depending on the country. The movement toward higher minimum capital requirements, combined with a growing recognition of credit quality and financially sound and strong companies is contributing to an evolving market.

AM Best will continue to publish (re)insurance insight and expertise through our regular market reports and briefings on the African market, and take part in speaker presentations in the region. We look forward to playing an ongoing role in the development of this exciting and increasingly sophisticated financial services sector.

Dr Edem Kuenyehia
Director, Market Development & Communications
AM Best – EMEA
AM Best at a Glance

AM Best is a leading provider of ratings, financial data and news with a specialist focus on the worldwide insurance industry. Best’s Credit Ratings are recognised as a tool for assessing the financial strength of insurance-related organisations and the credit quality of their obligations.

- Established in the U.S. in 1899 and pioneered the concept of financial strength ratings in 1906
- Worldwide headquarters in New Jersey, U.S.; regional centres in London and Amsterdam (serving Europe, Middle East and Africa), Hong Kong and Singapore (serving Asia Pacific and Oceania), and Mexico City (serving Latin America); representative office located in Dubai (serving MENA, South and Central Asia)
- Full-service global ratings capabilities
- Over 3,500 ratings in more than 90 countries worldwide
- Extensive marketing and publishing capability to promote corporate ratings in local and international markets

Market Coverage

Insurance-related companies operating in various markets, including:

- Property/casualty (non-life) insurers
- Life insurers and annuity writers
- Health insurers
- Reinsurers
- Mutual insurers and Protection and Indemnity (P&I) clubs
- Takaful, Retakaful and co-operative insurers
- Lloyd’s and its syndicates
- New company formations (“start-ups”)  
- Alternative risk transfer (ART) vehicles (including captives, pools and risk-retention groups)
- Catastrophe bond issuers and other Insurance-Linked Securitisations (ILS)

Competitive Strengths

- Only international rating agency dedicated to the insurance industry
- World’s leading provider of insurer Financial Strength Ratings (FSRs) by company coverage
- Foremost rating coverage of the global reinsurance segment
- Leading position in international reinsurance hubs—including comprehensive coverage of Lloyd’s/London market, Bermuda, Zurich and Singapore
- Leading rating agency for (re)insurance in the emerging markets of MENA and South and Central Asia
- Leading rating agency for ART and captives coverage
- Key rating agency used by global broker security teams
- Data and research covering 17,000 (re)insurance companies worldwide
- Largest and most comprehensive insurance database providing unique insights by segment and line of business
- Published rating methodology on all key insurance industry segments

Research and News

- Publishers of frequent specialised reports on global insurance industry issues, including sector, company and geographic regional analysis. Extensive global insurance news delivery and resources
Introduction to Insurance Ratings

Best’s Credit Ratings: The Global Symbol of Financial Strength

Rating Definitions

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 Financial Strength Rating (FSR) An independent opinion of an insurer’s financial strength and ability to meet its ongoing insurance policy and contract obligations.

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.

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 Issuer Credit Rating (ICR) using a transition chart.

A rating by AM Best is based on a comprehensive evaluation of an insurance company’s balance sheet strength, operating performance, business profile and enterprise risk management. AM Best also regularly publishes Impairment Studies, which evaluate rating performance over time.

Best’s Credit Rating Scales

Translation of Issuer Credit Ratings to Financial Strength Ratings

<table>
<thead>
<tr>
<th>Long-Term ICR</th>
<th>FSR</th>
</tr>
</thead>
<tbody>
<tr>
<td>aaa, aa+</td>
<td>A++</td>
</tr>
<tr>
<td>aa, aa-</td>
<td>A+</td>
</tr>
<tr>
<td>a+, a</td>
<td>A</td>
</tr>
<tr>
<td>a-</td>
<td>A-</td>
</tr>
<tr>
<td>bbb+, bbb</td>
<td>B++</td>
</tr>
<tr>
<td>bbb-</td>
<td>B+</td>
</tr>
<tr>
<td>bb+, bb</td>
<td>B</td>
</tr>
<tr>
<td>bb-</td>
<td>B-</td>
</tr>
<tr>
<td>b+, b</td>
<td>C++</td>
</tr>
<tr>
<td>b-</td>
<td>C+</td>
</tr>
<tr>
<td>ccc+, ccc</td>
<td>C</td>
</tr>
<tr>
<td>ccc-, cc</td>
<td>C-</td>
</tr>
<tr>
<td>c</td>
<td>D</td>
</tr>
</tbody>
</table>

ICR = Issuer Credit Rating  
FSR = Financial Strength Rating


BestMark for Rated Insurers

The BestMark provides a recognisable visual symbol of an insurer’s financial strength.

- More than 150,000 insurance industry professionals via AM Best’s publications (BestWeek®, Best’s Review®, BestDay®, BestWire®, Best’s Journal®)
- Thousands of financial professionals worldwide via news vendors such as Reuters, Dow Jones and NewsEdge
- More than 1,160,000 registered professionals who have online access to Best’s Credit Ratings

Best’s Credit Ratings and related financial information provide powerful tools for insurance decision making and market research for insurance agents, brokers, risk managers, bankers, insurance executives, policyholders and consumers.
Best’s Credit Ratings: The Rating Process

An AM Best Market Development contact can help get you started by answering your questions and supplying the information necessary to make an informed decision about obtaining a Best’s Credit Rating.

Upon determination of rating feasibility, a rating fee will be quoted. If accepted, a contract will be issued for signature, and when returned, and fee paid, the company will be assigned a rating analyst for the process to begin.

The Rating Process, Step by Step

<table>
<thead>
<tr>
<th>STEP 1</th>
<th>STEP 2</th>
<th>STEP 3</th>
<th>STEP 4</th>
<th>STEP 5</th>
<th>STEP 6</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rating Engagement and Contract</td>
<td>Compiling Information</td>
<td>Rating Management Meeting</td>
<td>AM Best’s Analysis &amp; Decision</td>
<td>Rating Communication &amp; Dissemination</td>
<td>Monitoring Best’s Credit Rating</td>
</tr>
</tbody>
</table>

Preliminary Discussions on Rating Objectives, Benefits and Scope of Analysis

Discussions resulting in the company requesting to enter the rating process.

STEP 1: Rating Engagement and Contract

Once a contract is signed and returned, the company is assigned a rating analyst, and the interactive rating process commences.

STEP 2: Compiling Information

The rating assessment begins with the compilation of detailed public and proprietary financial information, including annual and quarterly financial statements, regulatory filings, certified actuarial and loss-reserve reports, investment detail and guidelines, reinsurance transactions, annual business plans and Best’s Supplemental Rating Questionnaire.

STEP 3: Rating Management Meeting

AM Best analysts meet with senior management and technical staff of the company that has applied for a rating, often at the applicant company’s head office or in some cases at another mutually agreed location. This may include video conference options.

STEP 4: AM Best’s Analysis and Decision

A rating recommendation is arrived at from the analysis and is taken to the Rating Committee for review and final determination.

STEP 5: Rating Communication and Dissemination

- The rating is communicated to the rated entity.
- Once the rating is accepted by the rated entity, it is published immediately.

STEP 6: Monitoring Best’s Credit Rating

- The company is continuously monitored after the rating has been accepted.
- Open dialogue with AM Best’s analytical team is fundamental for the ongoing maintenance of the company’s rating, which will be formally reviewed at least annually.

The typical duration of the rating process, from signed contracts to announcement of assigned ratings, is approximately three to four months.
Preventing a Rating Management Meeting

Meeting with the management of a company is an integral part of AM Best’s interactive rating process. Management meetings enable our rating analysts to review with the company factors that may affect its rating, including strategic goals, financial objectives and management practices.

It is during these interactive meetings that a company typically will share information that may be extremely sensitive or proprietary in nature. As a management meeting is a critical component in AM Best’s analytical process, adequate preparation by the company is imperative.

During management meetings, companies should be prepared to provide and discuss, in detail, a broad range of information that can vary depending on the company and the industry in which they operate. The AM Best analyst typically provides a meeting agenda, outlining discussion topics that will guide the preparation effort.

Information Requirements

The primary source of the information is each company’s annual and quarterly (if available) financial statements, as filed with the regulatory agency of the state, province or country in which the company is domiciled.

For a company new to the process, it is important to go through the history and business review issues, as well as the operating performance and overall capital position. For companies that are more familiar with the process, it is more important to focus on changes that have occurred since the last meeting. When there is a transaction pending or significant change in operating strategy and business plan, the focus of the meeting will be on such items.

AM Best expects all information submitted by a company to be accurate and complete. Furthermore, AM Best expects that any information relevant to the rating process will be submitted on a timely basis.

Key executives should be present to discuss their areas of responsibility, including strategy, distribution, underwriting, reserving, investments, claims and overall financial results and projections. The number of participants involved in the meeting can vary depending on the size and structure of the company.

Companies are encouraged to select a rating agency liaison person who knows the company well and can respond to ongoing inquiries promptly. This is particularly important with significant events or transactions for which a company should provide advance notification, giving AM Best an opportunity to evaluate the effects of the transaction on the company’s operations.

Information provided to AM Best by a company during a management meeting may be extremely sensitive and/or proprietary. AM Best analysts are held to the highest standards of ethical and professional conduct in handling such information. AM Best has established policies and procedures to prevent unauthorised disclosure of confidential information and ratings prior to release. AM Best allows the use of confidential information only for purposes related to its rating activities or in accordance with any confidentiality agreements with the rated company.

Four Key Elements

Key elements to maintaining a mutually successful relationship with AM Best are:

1. **Honest and open dialogue.** The person selected as the rating agency liaison should be very knowledgeable about the company and be able to manage the relationship with AM Best in a positive and productive manner. Discussions concerning the company’s positives and negatives should always be frank; companies can expect this standard from AM Best.

2. **Full and timely disclosure of company information and plans.** This includes the company’s vision, mission and strategy, as well as financial statements and projections, rationales and details of any transactions and sales results.

3. **Full preparation for management meetings.** In general, companies should be prepared to discuss, in detail, a broad range of information, including corporate overview, strategic plan, business lines, financial overview, investments, operations and technology. All information should be compiled and disseminated for review prior to the meeting. For any rating management meeting to be successful, the company’s key executives must be present and be prepared for the discussion.

4. **Advance notification of significant transactions.** Advance notification of significant transactions, including background information, should be provided. This gives AM Best analysts an opportunity to evaluate the effects of the transaction on the company’s operations before reacting to public inquiries. All such information is considered proprietary and will be held in the strictest confidence by AM Best.
Best’s Credit Ratings: Non-Life Insurance Indicative Rating Meeting Agenda

To make your rating meeting as complete and comprehensive as possible, AM Best’s analytical team has prepared an indicative non-life meeting agenda, detailing the areas that will be discussed in the initial interactive rating meeting.

Organisational Overview

- Review of corporate structure
  - Ownership/membership structure
  - Management structure and board of directors
- Executive overview
  - Group strategic objectives and expectations
  - Mission statement
  - Management’s perspective on key risks

Balance Sheet Strength

- Capital management, capital adequacy and BCAR discussion
- Stress tests
- Quality of capital
  - Composition of capital structure
  - Financial leverage and interest coverage
  - Financial guarantees
- Liquidity
  - Sources and uses of liquidity
- Investments
  - Investment strategy and portfolio composition
  - Management of credit risk: potential bond default
  - Management of capital market risk:
    - Equities/interest rates
  - Investment manager(s)
- Approach to Asset Liability Management (ALM)
- Reserve discussion
  - Severity and frequency trends
  - Claims administration (internal/third party)
  - New potential claim emergence
  - Loss reserves (actuarial report):
    - carried vs. indicated
  - Management’s perspective of reserve adequacy
  - Asbestos and environmental reserve analysis
    (if applicable)
- Reinsurance program review
  - Overview of reinsurance structure (all classes)
  - Inter-company reinsurance/pooling agreements
  - Credit risk management
- Catastrophe management
  - Natural and man-made catastrophe exposure
    analysis and management
  - Probable Maximum Loss (PML)/tail risk
    analysis/catastrophe model(s) used
  - Risk aggregation/mapping/geocoding
- Holding company discussion (parental analysis)
  - Financial leverage and interest coverage
  - Liquidity plan
  - Operating leverage
  - Intangibles/quality of consolidated capital
  - Non-insurance operations
- Country risk impact

Operating Performance

- Underwriting performance
- Investment performance
- Total operating earnings
- Financial forecasts
- Country risk impact

Business Profile

- Market conditions and degree of competition
- Market position and expansion initiatives
- Business strategies (short- and long-term) and targets
- Growth strategies and targets
- Product offering(s) (including limits offered) and geographic footprint
- Management of product/geographic concentration/diversification
- Management of product risk
- Distribution strategy
- Pricing sophistication and data quality; pricing environment
- Regulatory, event and market risks
- Innovation initiatives/environmental and social governance considerations
- Country risk impact

Enterprise Risk Management*

- Framework evaluation
  - Risk identification and reporting
  - Risk appetite and tolerance
  - Stress testing
  - Risk management and controls
  - Governance and risk culture
- Discussion of risk management capabilities relative to risk profile
  - Product/underwriting
  - Reserving
  - Concentration
  - Reinsurance
  - Liquidity and capital management
  - Investments
  - Legislative/regulatory/judicial/economic
  - Operational

*AM Best’s expectation of a company’s ERM capabilities will vary depending upon an insurer’s scope of operations, size and risk complexity. In some cases, a separate ERM meeting may be required.
Introduction to Insurance Ratings

Best’s Credit Ratings:
Life Insurance Rating Meeting Agenda

To make your rating experience as complete and comprehensive as possible, AM Best’s analytical team has prepared a sample life meeting agenda, detailing the areas that will be discussed in the initial interactive rating meeting.

Balance Sheet Strength
- Capitalisation (targeted levels, statutory coverage, access to capital)
- Dividend policy
- Holding company and corporate overview (leverage, coverage, cash at holdco, consolidating statements)
- Reinsurance agreements
- Assumption changes, reserving discussion
- Balance sheet composition
- Investment strategy, management of portfolio
- Asset/liability/duration management
- Discussion of liquidity
- Approach to illiquid assets

Operating Performance
- Profitability by product line or business unit (mortality, morbidity, longevity, expenses, investment return vs. assumptions on existing business)
  - Expected profitability on new business
- Projected two-to-three year business plan
- Budgets, investment in technology
- Economic and/or Solvency II and/or embedded value analysis (European companies)
- External/internal actuarial reviews
- RoE targets
- Unit linked/segregated funds performance
- Review of unit linked/segregated fund guarantees
- Discussion of profit share on participating funds
- Spread analysis

Business Profile
- Management structure
- Mergers and acquisition/disposition strategy
- Parental/shareholder expectations
- Assessment of business environment
- Regulatory issues (relevant to your core areas)
- Overall strategy and expansion plans
- Growth opportunities, including updates on target levels for new business
- Customer service and reputation management
- Pricing trends, actions and impact on profitability and persistency
- Effect of changes in valuation assumptions
- By product line
  - Competitive market position
  - Sales performance by product line
  - Distribution channels
  - Channel productivity
  - New products

Enterprise Risk Management*
- ERM framework
- Risk correlation
- Modeling capabilities—economic capital/DFA/RAROC
- Risk tolerance
- Risk management objectives, including product design, hedging and reinsurance

*AM Best’s expectation of a company’s ERM capabilities will vary depending upon an insurer’s scope of operations, size and risk complexity. In some cases, a separate ERM meeting may be required.
**Best’s Credit Ratings (BCRs)**

AM Best assigns various types of BCRs to a wide variety of insurance organisations, from single legal entity insurers to complex, multinational enterprises with diversified operations.

**Best’s Credit Rating Scale**

Translation of Issuer Credit Ratings to Financial Strength Ratings

<table>
<thead>
<tr>
<th>Long-Term ICR</th>
<th>FSR</th>
</tr>
</thead>
<tbody>
<tr>
<td>aaa, aa+</td>
<td>A+++</td>
</tr>
<tr>
<td>aa, aa-</td>
<td>A+</td>
</tr>
<tr>
<td>a+, a</td>
<td>A</td>
</tr>
<tr>
<td>bbb+, bbb</td>
<td>B++</td>
</tr>
<tr>
<td>bbb-</td>
<td>B+</td>
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<tr>
<td>bb+, bb</td>
<td>B</td>
</tr>
<tr>
<td>bb-</td>
<td>B-</td>
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<tr>
<td>b+, b</td>
<td>C++</td>
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<tr>
<td>b-</td>
<td>C+</td>
</tr>
<tr>
<td>ccc+, ccc</td>
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<td>ccc-, cc</td>
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<td>c</td>
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</tbody>
</table>

**BCRs Include:**

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

- **Financial Strength Rating (FSR):**
  An independent opinion of an insurer’s financial strength and ability to meet its ongoing insurance policy and contract obligations.

- **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. When assigned to a specific issue, an IR is an opinion of the ability of the issuer/obligor to meet the ongoing financial obligations to security holders when due.

**Best’s Credit Rating Methodology (BCRM)**

Provides a comprehensive explanation of AM Best’s rating process. Key rating factors—including an insurer's balance sheet strength, operating performance, business profile and enterprise risk management (ERM)—are qualitatively and quantitatively evaluated during the rating process. The foundational building blocks of AM Best’s rating approach are outlined below.

**AM Best’s Rating Process**

1. **Baseline Balance Sheet Strength Assessment**

<table>
<thead>
<tr>
<th>Assessment Factors</th>
</tr>
</thead>
<tbody>
<tr>
<td>BCAR</td>
</tr>
<tr>
<td>Quality and appropriateness of reinsurance programmes</td>
</tr>
<tr>
<td>Quality and diversification of assets</td>
</tr>
<tr>
<td>Financial and operating leverage</td>
</tr>
<tr>
<td>Adequacy of reserves</td>
</tr>
<tr>
<td>Liquidity</td>
</tr>
<tr>
<td>Quality of capital</td>
</tr>
<tr>
<td>Internal economic capital models</td>
</tr>
</tbody>
</table>

All key characteristics described for each assessment category are ideal scenarios and are not intended to be prescriptive.
Introduction to Insurance Ratings

Best’s Capital Adequacy Ratio (BCAR)
The measurement of the insurer’s capital adequacy is key to the balance sheet assessment. AM Best uses its Best’s Capital Adequacy Ratio (BCAR) to differentiate an insurer’s balance sheet strength and determine whether its capitalisation is appropriate for its risk profile. The BCAR evaluates many of the insurer’s balance sheet risks simultaneously, generates an estimate of the capital needed to support those risks at different confidence intervals and compares it with the insurer’s available capital.

BCAR Assessment

<table>
<thead>
<tr>
<th>VaR Confidence Level (%)</th>
<th>BCAR</th>
<th>BCAR Assessment</th>
</tr>
</thead>
<tbody>
<tr>
<td>99.6</td>
<td>&gt; 25 at 99.6</td>
<td>Strongest</td>
</tr>
<tr>
<td>99.6</td>
<td>&gt; 10 at 99.6 &amp; ≤ 25 at 99.6</td>
<td>Very Strong</td>
</tr>
<tr>
<td>99.5</td>
<td>&gt; 0 at 99.5 &amp; ≤ 10 at 99.6</td>
<td>Strong</td>
</tr>
<tr>
<td>99</td>
<td>&gt; 0 at 99 &amp; ≤ 0 at 99.5</td>
<td>Adequate</td>
</tr>
<tr>
<td>95</td>
<td>&gt; 0 at 95 &amp; ≤ 0 at 99</td>
<td>Weak</td>
</tr>
<tr>
<td>95</td>
<td>≤ 0 at 95</td>
<td>Very Weak</td>
</tr>
</tbody>
</table>

Baseline Balance Sheet Strength Assessment
The assessments of the insurance company (Part 1) and its holding company (Part 2) result in the company’s “Combined Balance Sheet Strength Assessment.” AM Best arrives at a company’s baseline balance sheet strength assessment by incorporating country risk (Part 3). The baseline is selected for the company from the various options in the Overall Balance Sheet Assessment chart and is determined through analytical judgment and rating committee review.

The Insurance Rating Unit:

<table>
<thead>
<tr>
<th>Assessment</th>
<th>Key Characteristics</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongest</td>
<td>The rating unit has the strongest BCAR score with a demonstrated pattern of stability. Its quality of capital and Asset Liability Management (ALM) are also the strongest. It has an appropriate and diverse reinsurance programme. Any additional analytical factors are in line with an assessment of strongest.</td>
</tr>
<tr>
<td>Very Strong</td>
<td>The rating unit has a very strong BCAR score with a demonstrated pattern of stability. Its quality of capital and ALM are also very strong. It has an appropriate and diverse reinsurance programme. Any additional analytical factors are in line with an assessment of very strong.</td>
</tr>
<tr>
<td>Strong</td>
<td>The rating unit has a strong BCAR score with a demonstrated pattern of stability. Its quality of capital and ALM are also strong. It has an appropriate and diverse reinsurance programme. Any additional analytical factors are in line with an assessment of strong.</td>
</tr>
<tr>
<td>Adequate</td>
<td>The rating unit has an adequate BCAR score that has been relatively stable. Its quality of capital and ALM are adequate. It has an appropriate reinsurance programme. Any additional analytical factors are in line with an assessment of adequate.</td>
</tr>
<tr>
<td>Weak</td>
<td>The rating unit has a weak BCAR score with a demonstrated pattern of volatility. Its quality of capital and ALM are weak. Its reinsurance programme is weak. Any additional analytical factors are in line with an assessment of weak.</td>
</tr>
<tr>
<td>Very Weak</td>
<td>The rating unit has a very weak BCAR score with a demonstrated pattern of volatility. Its quality of capital and ALM are very weak. Its reinsurance programme is very weak. Any additional analytical factors are in line with an assessment of very weak.</td>
</tr>
</tbody>
</table>

Holding Company
This analysis involves a review of the impact of the holding company and/or affiliates on the rating unit (the insurer). AM Best considers financial flexibility (including the Holding Company’s BCAR score), liquidity, financial leverage, interest coverage, dividend requirements and cash sources and uses (including unregulated non-insurance subsidiaries) to determine the effect on the lead rating unit.
Impact of Insurance Holding Company on Balance Sheet Strength Assessment

<table>
<thead>
<tr>
<th>Assessment</th>
<th>Key Characteristics</th>
</tr>
</thead>
<tbody>
<tr>
<td>Positive</td>
<td>The consolidated BCAR is supportive of or exceeds that of the rating unit BCAR. Financial flexibility, liquidity, and access to capital markets are high. Financial leverage is low on both an adjusted and unadjusted basis. Interest coverage is more than adequate.</td>
</tr>
<tr>
<td>Neutral</td>
<td>The consolidated BCAR is consistent with the rating unit BCAR. Financial flexibility, liquidity, and access to capital markets are adequate. Financial leverage is acceptable on both an adjusted and unadjusted basis. Interest coverage is adequate.</td>
</tr>
<tr>
<td>Negative</td>
<td>The consolidated BCAR score is inadequate relative to the rating unit BCAR. Financial flexibility, liquidity, and access to capital markets are low. Financial leverage is high on either an adjusted or unadjusted basis. Interest coverage is inadequate.</td>
</tr>
<tr>
<td>Very Negative</td>
<td>The consolidated BCAR indicates a poor financial position relative to the rating unit BCAR. Financial flexibility, liquidity, and access to capital markets are very low. Financial leverage is very high on either an adjusted or unadjusted basis. Interest coverage is inadequate.</td>
</tr>
</tbody>
</table>

Combined Balance Sheet Strength Assessment

<table>
<thead>
<tr>
<th>Country Risk Tier</th>
<th>Strongest</th>
<th>Very Strong</th>
<th>Strong</th>
<th>Adequate</th>
<th>Weak</th>
<th>Very Weak</th>
</tr>
</thead>
<tbody>
<tr>
<td>CRT-1</td>
<td>a+/a</td>
<td>a+/a</td>
<td>a/a-</td>
<td>bbb+/bbb</td>
<td>bbb+/bbb</td>
<td></td>
</tr>
<tr>
<td>CRT-2</td>
<td>a+/a</td>
<td>a/a-</td>
<td>a-/bbb+</td>
<td>bbb+/bbb/bbb-</td>
<td>bbb/bbb-/bb+</td>
<td></td>
</tr>
<tr>
<td>CRT-3</td>
<td>a/a-</td>
<td>a-/bbb+</td>
<td>bbb+/bbb/bbb-</td>
<td>bbb/bbb-/bb+</td>
<td>bbb-/bb+/bb</td>
<td></td>
</tr>
<tr>
<td>CRT-4</td>
<td>a-/bbb+</td>
<td>a-/bbb+</td>
<td>bbb+/bbb/bbb-</td>
<td>bbb/bbb-/bb+</td>
<td>bbb-/bb+/bb</td>
<td></td>
</tr>
<tr>
<td>CRT-5</td>
<td>a-/bbb+</td>
<td>a-/bbb+</td>
<td>bbb+/bbb/bbb-</td>
<td>bbb/bbb-/bb+</td>
<td>bbb-/bb+/bb</td>
<td></td>
</tr>
</tbody>
</table>

Country Risk

Country risk and its assessment are incorporated into the analysis of balance sheet strength, operating performance and business profile. AM Best defines country risk as the risk that country-specific factors will adversely affect an insurer’s ability to meet its financial obligations.

Overall Balance Sheet Assessment

Operating Performance

The second building block of AM Best’s rating process is operating performance. This analysis can result in an increase, decrease or no change to the baseline assessment. Possible adjustments range from +2 notches to -3 notches.

AM Best views operating performance as a leading indicator of future balance sheet strength and long-term financial stability. A company’s profitability affects its ability to generate earnings, and profitable insurance operations are essential for a
company to operate as a going concern. In general, more diversity in earnings streams leads to greater stability in operating performance. AM Best’s analysis of operating performance focuses on the stability, diversity and sustainability of the company’s earnings sources and the interplay between earnings and liabilities.

Operating Performance Assessment

<table>
<thead>
<tr>
<th>Assessment</th>
<th>Notches</th>
<th>Key Characteristics</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very Strong</td>
<td>+2</td>
<td>Historical operating performance is exceptionally strong and consistent. Trends are positive and prospective operating performance is expected to be exceptionally strong. Volatility of key metrics is low.</td>
</tr>
<tr>
<td>Strong</td>
<td>+1</td>
<td>Historical operating performance is strong and consistent. Trends are neutral/slightly positive and prospective operating performance is expected to be strong. Volatility of key metrics is low to moderate.</td>
</tr>
<tr>
<td>Adequate</td>
<td>0</td>
<td>Historical operating performance and trends are neutral. Prospective operating performance is expected to be neutral. Volatility of key metrics is moderate.</td>
</tr>
<tr>
<td>Marginal</td>
<td>-1</td>
<td>Historical operating trends have been inconsistent. Trends are neutral/slightly negative with some uncertainty in prospective operating performance. Volatility of key metrics is moderate to high.</td>
</tr>
<tr>
<td>Weak</td>
<td>-2</td>
<td>Historical operating performance is poor. Trends are slightly negative and prospective operating performance is expected to be poor. Volatility of key metrics is high.</td>
</tr>
<tr>
<td>Very Weak</td>
<td>-3</td>
<td>Historical operating performance is very poor. Trends are negative and prospective operating performance is expected to be very poor. Volatility of key metrics is very high.</td>
</tr>
</tbody>
</table>

Business Profile

Business profile is the third building block in AM Best’s rating process and is a highly qualitative component of AM Best’s rating evaluation. Business profile may ultimately affect an insurer’s current and future operating performance and, in turn, its long-term financial strength and ability to meet its obligations to policyholders. Possible adjustments for business profile range from +2 notches to -2 notches.

The business profile review includes evaluation of the following factors:

- Market position
- Degree of competition
- Distribution channels
- Pricing sophistication and data quality
- Management quality
- Product/Geographic concentration
- Product risk
- Regulatory, event, market, and country risks

Business Profile Assessment

<table>
<thead>
<tr>
<th>Assessment</th>
<th>Notches</th>
<th>Key Characteristics</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very Favourable</td>
<td>+2</td>
<td>The company’s market leadership position is unquestionable, demonstrated and defensible with high brand recognition. Distribution is seen as a competitive advantage; business lines are non-correlated and generally lower risk. Its management capabilities and data management are very strong.</td>
</tr>
<tr>
<td>Favourable</td>
<td>+1</td>
<td>The company is a market leader with strong business trends and good control over distribution. It has diversified operations in key markets that have high to moderate barriers to entry with low competition. It has a strong management team that is able to meet projections and utilise data effectively.</td>
</tr>
<tr>
<td>Neutral</td>
<td>0</td>
<td>The company is not a market leader, but is viewed as competitive in chosen markets. It has some concentration and/or limited control of distribution. It has moderate product risk but limited severity and frequency loss. Its use of technology is evolving and its business spread of risk is adequate</td>
</tr>
<tr>
<td>Limited</td>
<td>-1</td>
<td>The company has a lack of diversification in geographic and/or product lines; its control over distribution is limited and undifferentiated. It faces high/increasing competition with low barriers to entry and elevated product risk. Management is unable to utilise data effectively or consistently in business decisions.</td>
</tr>
<tr>
<td>Very Limited</td>
<td>-2</td>
<td>The company faces high competition and low barriers to entry. It has high concentration in commodity or higher-risk products with very limited geographic diversity. It has weak data management. Country risk may factor into its elevated business profile risks.</td>
</tr>
</tbody>
</table>
Enterprise Risk Management (ERM)
ERM is the fourth building block in the rating process. The impact of ERM on an insurer’s rating is based on understanding the development and implementation of an insurer’s risk management framework as well as the insurer’s risk management capability relative to its risk profile. The framework and the risk evaluations include the following sub-assessments:

<table>
<thead>
<tr>
<th>Framework Evaluation</th>
<th>Risk Evaluation</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Risk identification and reporting</td>
<td>• Product &amp; Underwriting</td>
</tr>
<tr>
<td>• Risk appetite and tolerance</td>
<td>• Reserving</td>
</tr>
<tr>
<td>• Stress testing and non-modelled risks</td>
<td>• Concentration</td>
</tr>
<tr>
<td>• Risk management and controls</td>
<td>• Reinsurance</td>
</tr>
<tr>
<td>• Governance and risk culture</td>
<td>• Liquidity &amp; Capital Management</td>
</tr>
<tr>
<td></td>
<td>• Investments</td>
</tr>
<tr>
<td></td>
<td>• Legislative/Regulatory/Judicial/Economic</td>
</tr>
<tr>
<td></td>
<td>• Operational</td>
</tr>
</tbody>
</table>

Enterprise Risk Management Assessment

<table>
<thead>
<tr>
<th>Assessment</th>
<th>Notches</th>
<th>Key Characteristics</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very Strong</td>
<td>+1</td>
<td>The insurer’s ERM framework is embedded. The insurer demonstrates market best practice techniques. The results are evident in a prudent and stable level of net required capital and successful performance over the long term. Risk management capabilities are very strong and are suitable for the risk profile of the company.</td>
</tr>
<tr>
<td>Appropriate</td>
<td>0</td>
<td>The insurer’s ERM framework is developed. Risk management capabilities are well aligned with the risk profile of the company.</td>
</tr>
<tr>
<td>Marginal</td>
<td>-1</td>
<td>The insurer’s ERM framework is evolving. Risk management capabilities show some weakness in key risk areas.</td>
</tr>
<tr>
<td>Weak</td>
<td>-2</td>
<td>The insurer’s ERM framework contains some nascent elements. Risk management capabilities are largely not aligned with the risk profile of the company.</td>
</tr>
<tr>
<td>Very Weak</td>
<td>-3/4</td>
<td>The insurer’s ERM framework is unrecognised. Risk management capabilities relative to the risk profile of the company are not aligned.</td>
</tr>
</tbody>
</table>

If a rating unit is practicing sound risk management and executing its strategy effectively, the results will be evident in successful performance over the long term. Possible adjustments for ERM range from +1 notch to -4 notches.

Companies with complex global business profiles have a need for a robust and comprehensive ERM programme. In many cases, the complexities and demands of these companies’ “Very Favourable” business profiles require an equally “Very Strong” ERM. Acknowledging this interaction, and the limited impact that these two highly qualitative building blocks may have on credit strength, the combined impact between business profile and ERM will be restricted to a maximum of +2 notches. This calculation would only affect those companies that have both a “Very Favourable” business profile assessment and a “Very Strong” ERM assessment.

Comprehensive Adjustment
A comprehensive adjustment may be applied in the rating process when the company being reviewed has an uncommon strength or weakness that exceeds (or is less than) what has been captured through the rating process up to this point. A comprehensive adjustment can increase or decrease the assessment by a maximum of 1 notch. The vast majority of ratings will not require a comprehensive adjustment.

<table>
<thead>
<tr>
<th>Assessment</th>
<th>Notches</th>
<th>Key Characteristics</th>
</tr>
</thead>
<tbody>
<tr>
<td>Positive</td>
<td>+1</td>
<td>The company has uncommon strengths that exceed what has been captured throughout the rating process.</td>
</tr>
<tr>
<td>None</td>
<td>0</td>
<td>The company’s strengths and weaknesses have been accurately captured throughout the rating process.</td>
</tr>
<tr>
<td>Negative</td>
<td>-1</td>
<td>The company has uncommon weaknesses that exceed what has been captured throughout the rating process.</td>
</tr>
</tbody>
</table>
Introduction to Insurance Ratings

Rating Lift/Drag
In this step, the company may be afforded lift (or drag) based on factors such as integration, strategic importance and contribution to the overall enterprise. The amount of lift or drag assigned depends on the specific circumstances of the insurer. For further details please visit www3.ambest.com/ambv/ratingmethodology/.

The Credit Rating Process
The typical duration from signed contract to rating dissemination is generally about three to four months. Each interactively rated entity is assigned to a rating analyst, who manages the ongoing interaction with company management and conducts the fundamental credit analysis as described in AM Best’s rating criteria.

BCRs are initially determined and periodically updated through a defined rating committee process. The rating committee itself consists of analytical staff and is chaired by senior rating officers. The committee approach ensures rating consistency across different business segments and maintains the integrity of the rating process (described briefly below).

1. **Compile Information**
The assigned analyst collects public and proprietary financial information and data to develop a tailored meeting agenda.

2. **Perform Analysis**
AM Best incorporates a host of qualitative and quantitative measures to evaluate the organisations’ financial health.

3. **Determine Best’s Credit Rating**
The AM Best Rating Committee ensures rating consistency and maintains the integrity of the rating process and methodology.

4. **Disseminate Best’s Credit Rating**
Best’s Credit Ratings are distributed via the AM Best website, press releases and a number of print and digital publications.

5. **Monitor Best’s Credit Rating**
AM Best regularly monitors the rating by continually analysing the organisation’s creditworthiness.

Sample Information Inputs

<table>
<thead>
<tr>
<th>Private</th>
<th>Public</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Capital structure</td>
<td>• Meeting with key executives</td>
</tr>
<tr>
<td>• Investment and credit guidelines</td>
<td>• Business plans and projections</td>
</tr>
<tr>
<td>• Reinsurance guidelines</td>
<td>• Supplemental rating questionnaire (SRQ)</td>
</tr>
<tr>
<td>• Exposure to catastrophes</td>
<td>• Actuarial memorandum</td>
</tr>
<tr>
<td>• Enterprise risk management (ERM)</td>
<td>• Loss provision reports</td>
</tr>
<tr>
<td>• Internal capital models</td>
<td>• Cash-flow stress testing</td>
</tr>
<tr>
<td>• Financial statements</td>
<td></td>
</tr>
<tr>
<td>• Reports to shareholders</td>
<td></td>
</tr>
<tr>
<td>• Public records</td>
<td></td>
</tr>
<tr>
<td>• Regulatory reports and disclosure notes</td>
<td></td>
</tr>
<tr>
<td>• Audit reports</td>
<td></td>
</tr>
<tr>
<td>• Compliance and ethical conduct reports</td>
<td></td>
</tr>
</tbody>
</table>

Characteristics of Highly Rated Insurers

- Superior and stable risk-adjusted capitalisation across the various confidence levels
- Strong, predictable and sustainable operating profitability developed from a favourable lower-risk liability profile, with results exhibiting limited volatility
- Competitive advantage in branding, customer experience, investments, and/or underwriting
- Competitive market position leading to pricing power in core business lines
- Strong and stable operating cash flows, with books of business demonstrating favourable retention trends
- Diversified earnings and revenue streams
- Effective use of technology/data analytics which positively impacts performance
- Product design with flexibility/risk-sharing features to effectively react to changing market environments
- Market-leading distribution system
- Comprehensive and proactive enterprise risk management
- Consistency of key metrics compared with peers
- Long-term, well-developed business strategy that has been tested over time
- Strong management team
- Key operations in stable regulatory environments

This overview document provides a quick look at the components of Best’s Credit Rating Methodology (BCRM) and rating process. For more information related to the complete BCRM, including various comprehensive criteria procedures applicable to aspects of the insurance and reinsurance industry globally, please visit the Best’s Credit Rating Methodology section of our website at http://www3.ambest.com/ambv/.
Criteria: Evaluating Country Risk

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

Published: October 13, 2017

Outline
A. Market Description
B. Elements of Country Risk
C. Calculation of Country Risk
D. Country Risk Tiers
E. Annual and Event-Driven Reviews

A. Market Description
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. AM Best evaluates and incorporates country risk into all of its credit ratings, which entails identifying the various risks in a country that could directly or indirectly affect an insurance company. These risks are divided into three main categories: economic risk, political risk, and financial system risk; financial system risk is further divided into insurance risk and non-insurance financial system risk.

An evaluation of country risk is not directly comparable to a sovereign debt rating, which entails an evaluation of the ability and willingness of a government to service its debt obligations. Country risk analysis does consider the finances and policies of a sovereign government, but the final determination is not guided solely by these factors; thus, country risk evaluation is not tied to a sovereign debt rating.

AM Best's country risk evaluation entails both a data-driven assessment to score the level of risk in a given country and a qualitative determination of country-specific conditions affecting an insurer's operating environment. Countries are placed into one of five tiers, ranging from Country Risk Tier 1 (CRT-1), for countries with a stable environment that poses the least amount of risk, to Country Risk Tier 5 (CRT-5) for those that pose the most risk and, therefore, the greatest challenge to an insurer's financial stability, strength, and performance.

As country risk increases (as measured by a higher Country Risk Tier), the distribution of ratings generally migrates down the rating scale. This same relationship effectively applies to any significant category of risk an insurer faces, i.e., greater risk exposure will pressure financial stability.

Key elements of country risk can be managed or mitigated, effectively diminishing the impact on an insurer's rating. Country risk in and of itself is not equivalent to a ceiling or cap on insurer ratings, but just one of many factors in the rating process.

Country Risk Tier (CRT) assignments are reviewed annually, though significant events and developments are tracked continuously and may cause an interim change to a country's tier assignment. CRTs are evaluations of the current conditions in a country, but they are designed to remain stable through the business cycle. Therefore, political and industry outlooks, as well as economic forecasts, are integrated into the analysis.

B. Elements of Country Risk
The three risk categories in AM Best's country risk analysis are economic risk, political risk and financial system risk. Economic risk is the risk that fundamental weaknesses in a country's economy will adversely affect an insurer. AM Best's assessment of economic risk takes into account the state of the domestic economy, government finances, and international transactions, as well as prospects for growth and stability.

Political risk is the risk that governmental or bureaucratic inefficiencies, societal tensions, an inadequate legal system, or international tensions will adversely affect an insurer. Political risk takes into account the stability of a government and society, the effectiveness of international diplomatic relationships, the reliability and integrity of the legal system and business infrastructure, the efficiency of the government bureaucracy, and the appropriateness and effectiveness of the government's economic policies.

Financial (non-insurance) system risk the risk that financial volatility may be present due to inadequate reporting standards, weak banking systems or asset markets, or poor regulatory structure which can adversely affect an insurer. This type of risk
Introduction to Insurance Ratings

encompasses a country’s banking system, accounting standards, financial market development, and government finances, as well as the financial system’s vulnerability to external or internal volatility. AM Best’s analysis references Basel II & III, World Bank Insolvency Principles, and international accounting standards, as well as the performance of banks, equity indices, and fixed-income securities.

Insurance risk, a distinct subsection of financial system risk, is the risk that the level of development of a country’s insurance industry, as well as public awareness, transparency and effectiveness of regulation, reporting standards, and regulatory sophistication could contribute to financial volatility and compromise an insurer’s ability to pay claims. AM Best’s assessment of insurance risk is based heavily on the Insurance Core Principles (ICP) of the International Association of Insurance Supervisors (IAIS), using a sizable subset of the 28 ICPs divided into three categories: (1) government commitment to an open and well-regulated insurance industry; (2) adequacy of supervisory authority and its supporting infrastructure; and (3) insurer accountability.

C. Calculation of Country Risk

The country risk determination begins with running a Country Risk Assessment to generate a score consisting of the weighted average for the three risk categories. The score is then squared, to represent the non-linear relationship between the score and the actual country risk in the country. Exhibit C.1 shows how the Country Risk Score is calculated.

\[
CR\ Score = \left(\omega E + \omega P + \omega FS(FS_i + FS_n)\right)^2
\]

Where:
- \( E \) = Economic risk
- \( P \) = Political risk
- \( FS_i \) = Financial system risk (insurance component)
- \( FS_n \) = Financial system risk (non-insurance component)
- \( \omega \) = Weight applied to each category of risk

In special circumstances—for instance, for a domicile with a particularly strong relationship with another (such as Guernsey and the United Kingdom)—an additional calculation is used to incorporate the influence of larger domicile on the stability of the smaller one.

The country risk score provides a baseline assessment. A higher country risk score indicates a riskier environment, and a lower country risk score, a less risky environment. However, the Country Risk Group also evaluates additional qualitative factors that could influence the overall score or one particular category of risk.

D. Country Risk Tiers

The assignment of CRTs to score ranges is based on the concept that a country’s risk can be categorised loosely to provide a basis of comparison, provided that differences among countries are acknowledged. Therefore, CRTs can be classified, in a typical scenario, by the following:

CRT-1: The country is characterised by a predictable and transparent political environment, legal system and business infrastructure, a sophisticated financial system regulation with deep capital markets, and a mature insurance industry.

CRT-2: The country is characterised by a predictable and transparent political environment, legal system and business infrastructure, sufficient financial system regulation, and a mature insurance industry.

CRT-3: The country is characterised by a developing political environment, legal system, business infrastructure, capital market, and insurance regulatory structure.

CRT-4: The country is characterised by a relatively unpredictable and political, legal, and business environment, with an underdeveloped capital market, and a partially to fully inadequate insurance regulatory structure.
The country is characterised by an unpredictable and opaque political, legal, and business environment, with weak rule of law, lower human development and social instability, a limited, illiquid, or nonexistent capital market, and a nascent insurance industry.

Exhibit D.1: Components of Country Risk

E. Annual and Event-Driven Reviews

Each CRT is reviewed annually, although the Country Risk Group continually monitors world events and developments and assesses their potential impact on tier assignments. This process is facilitated by a country watch list, which identifies nations experiencing a significant increase in economic, political, or financial volatility that have the potential to impact a country's CRT.

Moving up or down the scale outside the annual review cycle is unusual, as the CRTs are designed to remain stable through the business cycle. Recent developments are factored into the analysis of country risk, but they are seldom significant enough to warrant an off-cycle change in the tier assignment. CRT changes are thus infrequent. However, in the event of a change in the CRT, ratings on the companies domiciled in that country will be subject to review.
This document addresses some frequently asked questions about AM Best’s handling of sovereign credit issues and the application of country risk. It also discusses how country risk is incorporated into Best’s Credit Rating Methodology (BCRM), released in October 2017.

**What are AM Best’s Country Risk Tiers?**

When analysing country risk, AM Best incorporates a data-driven quantitative scoring system that measures the level of risk in a given country, as well as a qualitative determination of country-specific conditions that affect an insurer’s operating environment. Countries are placed into one of five tiers, ranging from “CRT-1” (Country Risk Tier 1), which denotes a stable environment with the least amount of risk, to “CRT-5” (Country Risk Tier 5), for countries that pose the most risk and, therefore, the greatest challenge to an insurer’s financial stability, strength, and performance.

**Does AM Best rate sovereigns?**

No. AM Best specialises in insurance ratings; it does not rate the ability of sovereign governments to service their financial obligations, including debt issues.

**What is the difference between sovereign risk and country risk?**

Sovereign risk is a measure of a country’s ability to service its debts. It does not directly address the underlying operating environment in a country. Country risk, as measured by AM Best, considers the overall operating environment of a country in which a company operates and its impact on the company’s ability to meet its financial obligations. Country risk encompasses economic, political, and financial system risks, to create a more accurate picture for an insurance company’s operations in a specific domicile.

**What are some of the key metrics used to determine the Country Risk Tier for a given country?**

Many metrics are used to determine the Country Risk Tier. To measure the economic, political, and financial system risks in each country, AM Best uses data from numerous sources—such as the International Monetary Fund, the World Bank, IHS Markit, the Index of Economic Freedom, the United Nations, the Global Competitive Index, the World Trade Organization, and the Organization for Economic Co-operation and Development (OECD). Key concepts captured in the assessment of country risk include the macroeconomy (growth, price stability, and wealth); the vulnerability of the financial system, political and social stability, regional stability; the business environment; the level of corruption; the rule of law; the independence of the judiciary; reporting standards and regulation; and the overall strength of the local insurance market (legislation, regulation, and insurer accountability).

**How often are Country Risk Tiers updated?**

Country Risk Tiers are reviewed at least once annually, but with ongoing surveillance. The country risk team uses a quantitative scoring system, which, in most cases, is updated April through June, as year-end data becomes available. However, AM Best will conduct event-driven reviews of countries if the level of country risk is perceived to have become materially higher or lower than what the current assessment of the Country Risk Tier reflects. Country Risk Tiers are designed to remain stable through a business cycle, so off-cycle adjustments do not occur regularly. In the event of a change in the Country Risk Tier, any companies domiciled in or exposed to the affected country will be examined for the potential impact on their rating fundamentals.

**Is country risk applied to all Issuer Credit Ratings (ICRs)?**

Yes. Country risk is factored into all of AM Best’s ICRs, during the review of balance sheet strength, operating performance, and business profile (Exhibit 1).
How is country risk factored into the rating process?
As discussed in the BCRM, country risk is one of many factors considered in evaluating a company. Country risk plays an important role in setting the rating range for a company’s baseline assessment. The amount of consideration given to country risk (i.e., the potential impact on the assessments of balance sheet strength, operating performance, and business profile) is determined individually for each rating unit based on its financial strength, market position, and ability to mitigate or manage its exposure to country risk. Companies that are domiciled, conduct business, or have asset exposures in higher-risk countries are subject to more volatile external conditions. In these countries, a strong initial capital position can erode more quickly; thus, the initial rating range of a well-capitalised insurance rating unit domiciled or operating in a high-risk country will be lower than that of an insurer in a low-risk country.

What are the considerations when assessing the impact of country risk on a company’s rating assessment?
A number of factors are considered when evaluating a company’s ability to manage the operating environment to which it is exposed, among them:

- The amount of excess capital a company holds to offset or withstand deterioration in the operating environment—in the form of increased market volatility or asset write-downs
- The depth and use of local market knowledge to improve underwriting performance
- Special terms or conditions to lessen or limit market exposure
- Diversified assets and insurance portfolios (portfolio asset allocations, business lines or regions, minimal if any concentrations of revenue sources or exposure)
- Risk mitigation measures
- Contingency plans
- Shareholder financial strength and flexibility

However, AM Best understands that some country risk factors—for example, political, social, or regional stability—are inherent in certain markets, and that they cannot be avoided and must therefore be accepted as part of the overall operating environment.

Does AM Best place a sovereign ceiling on its insurer ICRs?
No, although movements from one CRT to another do affect the overall assessment of balance sheet strength. A company can be more financially secure than the government of the country in which it is domiciled. Placing a sovereign ceiling on an ICR would ignore a company’s ability to manage country risk by avoiding risk or hedging, or accepting what cannot be controlled and using counter measures such as additional capital, strong underwriting performance, or diversification. AM Best also believes that a sovereign default, while clearly creating a more difficult operating environment, would not necessarily lead to an insurance company in the domicile failing to meet its policyholder obligations.
Introduction to Insurance Ratings

**Does AM Best factor sovereign credit risk in its rating process?**
Yes. Since many insurers tend to hold a large proportion of domestic sovereign bonds of many mature, and some developing, markets, the insurer's investment portfolio is evaluated carefully. Through Best’s Capital Adequacy Ratio (BCAR), AM Best uses country-specific risk charges—based on the origin of the asset and the asset class—to capture the potential for market illiquidity and volatility. AM Best also examines an investment portfolio's concentration, to determine the extent of an insurer’s exposure to any one entity—including the sovereign.

In addition, AM Best incorporates country risk in all of its ratings. The country risk analysis considers the degree of economic, political, and financial system (both insurance and non-insurance) risk, as well as a government’s creditworthiness. (For more information on AM Best’s country risk analysis, please see *Evaluating Country Risk*).

**Does a change (upgrade/downgrade) in a government’s sovereign credit rating result in a change in the Country Risk Tier?**
Not necessarily. Countries are placed into one of five Country Risk Tiers; given that AM Best’s view of country risk is less stratified than the standard credit market scale, a one-to-one correspondence between movements in CRTs and movements in sovereign credit ratings would not be possible. As stated above, the CRT incorporates political, economic, and financial system (both insurance and non-insurance) risk, and although a government’s creditworthiness is factored into the country risk score, it is only one of many indicators. In addition to changes in sovereign credit quality, the cause of the improvement/deterioration is examined—be it rising debt, a slowing economy, or political upheaval. These underlying factors, which are often the basis for a decline in sovereign credit quality, are captured in the analysis and more directly influence the tier assignment.

**Does a government’s sovereign credit rating downgrade impact an insurer’s ICR?**
It depends on the circumstances. On its own, a sovereign rating is not a driver of an insurer’s ICR. However, as issues arise with sovereign debt, analysts identify those companies impacted by the issues (including the credit risk of the sovereign government), taking into account any rating downgrades, liquidity concerns, and potential changes in the country’s operating environment. Any changes in the credit quality of sovereign debt are also incorporated in the evaluation of the domicile’s country risk. The cause of any deterioration in sovereign credit quality is examined. The different impacts of specific company issues and country risk are incorporated into the ratings process on a company-by-company basis. Therefore, a sovereign credit rating downgrade could lead to the downgrade of an insurer’s ICR, regardless of whether it is rated higher or lower than the sovereign at the time. Nevertheless, although a downgrade of sovereign debt increases country risk and could impact a company’s rating, most downgrades are triggered by an increase in company-specific risks.
BEST’S FINANCIAL STRENGTH RATING GUIDE – (FSR)

A Best’s Financial Strength Rating (FSR) is 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 and does not address any other risk, including, but not limited to, an insurer’s claims-payment policies or procedures; the ability of the insurer to dispute or deny claims payment on grounds of misrepresentation or fraud; or any specific liability contractually borne by the policy or contract holder. An FSR is not a recommendation to purchase, hold or terminate any insurance policy, contract or any other financial obligation issued by an insurer, nor does it address the suitability of any particular policy or contract for a specific purpose or purchaser. In addition, an FSR may be displayed with a rating modifier, modifier or affiliation code that denotes a unique aspect of the opinion.

Best’s Financial Strength Rating (FSR) Scale

<table>
<thead>
<tr>
<th>Rating Categories</th>
<th>Rating Symbols</th>
<th>Rating Notches*</th>
<th>Category Definitions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Superior</td>
<td>A+</td>
<td>A++</td>
<td>Assigned to insurance companies that have, in our opinion, a superior ability to meet their ongoing insurance obligations.</td>
</tr>
<tr>
<td>Excellent</td>
<td>A-</td>
<td></td>
<td>Assigned to insurance companies that have, in our opinion, an excellent ability to meet their ongoing insurance obligations.</td>
</tr>
<tr>
<td>Good</td>
<td>B+</td>
<td>B++</td>
<td>Assigned to insurance companies that have, in our opinion, a good ability to meet their ongoing insurance obligations.</td>
</tr>
<tr>
<td>Fair</td>
<td>B-</td>
<td></td>
<td>Assigned to insurance companies that have, in our opinion, a fair ability to meet their ongoing insurance obligations. Financial strength is vulnerable to adverse changes in underwriting and economic conditions.</td>
</tr>
<tr>
<td>Marginal</td>
<td>C+</td>
<td>C++</td>
<td>Assigned to insurance companies that have, in our opinion, a marginal ability to meet their ongoing insurance obligations. Financial strength is vulnerable to adverse changes in underwriting and economic conditions.</td>
</tr>
<tr>
<td>Weak</td>
<td>C-</td>
<td></td>
<td>Assigned to insurance companies that have, in our opinion, a weak ability to meet their ongoing insurance obligations. Financial strength is very vulnerable to adverse changes in underwriting and economic conditions.</td>
</tr>
<tr>
<td>Poor</td>
<td>D-</td>
<td></td>
<td>Assigned to insurance companies that have, in our opinion, a poor ability to meet their ongoing insurance obligations. Financial strength is extremely vulnerable to adverse changes in underwriting and economic conditions.</td>
</tr>
</tbody>
</table>

* Each Best’s Financial Strength Rating Category from “A+” to “C” includes a Rating Notch to reflect a gradation of financial strength within the category. A Rating Notch is expressed with either a second plus “++” or a minus “--”.

Financial Strength Non-Rating Designations

<table>
<thead>
<tr>
<th>Designation</th>
<th>Symbols</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>E</td>
<td></td>
<td>Status assigned to insurers that are publicly placed, via court order into conservation or rehabilitation, or the international equivalent, or in the absence of a court order, clear regulatory action has been taken to delay or otherwise limit policyholder payments.</td>
</tr>
<tr>
<td>F</td>
<td></td>
<td>Status assigned to insurers that are publicly placed via court order into liquidation after a finding of insolvency, or the international equivalent.</td>
</tr>
<tr>
<td>S</td>
<td></td>
<td>Status assigned to rated insurance companies to suspend the outstanding FSR when sudden and significant events impact operations and rating implications cannot be evaluated due to a lack of timely or adequate information; or in cases where continued maintenance of the previously published rating opinion is in violation of evolving regulatory requirements.</td>
</tr>
<tr>
<td>NR</td>
<td></td>
<td>Status assigned to insurance companies that are not rated; may include previously rated insurance companies or insurance companies that have never been rated by AM Best.</td>
</tr>
</tbody>
</table>

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.

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BEST’S ISSUER CREDIT RATING GUIDE – (ICR)

A Best’s Issuer Credit Rating (ICR) is 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. A long-term ICR is an opinion of an entity’s ability to meet its ongoing senior financial obligations, while a short-term ICR is an opinion of an entity’s ability to meet its ongoing financial obligations with original maturities generally less than one year. An ICR is an opinion regarding the relative future credit risk of an entity. Credit risk is the risk that an entity may not meet its contractual financial obligations as they come due. An ICR does not address any other risk. In addition, an ICR is not a recommendation to buy, sell or hold any securities, contracts or any other financial obligations, nor does it address the suitability of any particular financial obligation for a specific purpose or purchaser. An ICR may be displayed with a rating identifier or modifier that denotes a unique aspect of the opinion.

Best’s Long-Term Issuer Credit Rating (ICR) Scale

<table>
<thead>
<tr>
<th>Rating Categories</th>
<th>Rating Symbols</th>
<th>Rating Notches*</th>
<th>Category Definitions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exceptional</td>
<td>aaa</td>
<td></td>
<td>Assigned to entities that have, in our opinion, an exceptional ability to meet their ongoing senior financial obligations.</td>
</tr>
<tr>
<td>Superior</td>
<td>aa</td>
<td>a+ / a-</td>
<td>Assigned to entities that have, in our opinion, a superior ability to meet their ongoing senior financial obligations.</td>
</tr>
<tr>
<td>Excellent</td>
<td>bb</td>
<td>b+ / b-</td>
<td>Assigned to entities that have, in our opinion, an excellent ability to meet their ongoing senior financial obligations.</td>
</tr>
<tr>
<td>Good</td>
<td>bb</td>
<td>bb+ / bb-</td>
<td>Assigned to entities that have, in our opinion, a good ability to meet their ongoing senior financial obligations.</td>
</tr>
<tr>
<td>Fair</td>
<td>bb-</td>
<td></td>
<td>Assigned to entities that have, in our opinion, a fair ability to meet their ongoing senior financial obligations.</td>
</tr>
<tr>
<td>Marginal</td>
<td>b</td>
<td>b+ / b-</td>
<td>Assigned to entities that have, in our opinion, a marginal ability to meet their ongoing senior financial obligations.</td>
</tr>
<tr>
<td>Weak</td>
<td>c</td>
<td>c+ / c-</td>
<td>Assigned to entities that have, in our opinion, a weak ability to meet their ongoing senior financial obligations.</td>
</tr>
<tr>
<td>Very Weak</td>
<td>c-</td>
<td></td>
<td>Assigned to entities that have, in our opinion, a very weak ability to meet their ongoing senior financial obligations.</td>
</tr>
<tr>
<td>Poor</td>
<td>c-</td>
<td></td>
<td>Assigned to entities that have, in our opinion, a poor ability to meet their ongoing senior financial obligations.</td>
</tr>
</tbody>
</table>

* Best’s Long-Term Issuer Credit Rating Categories from “aa” to “ccc” include Rating Notches to reflect a gradation within the category to indicate whether credit quality is near the top or bottom of a particular Rating Category. Rating Notches are expressed with a “+” (plus) or “-” (minus).

Best’s Short-Term Issuer Credit Rating (ICR) Scale

<table>
<thead>
<tr>
<th>Rating Categories</th>
<th>Rating Symbols</th>
<th>Category Definitions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongest</td>
<td>AMB-1</td>
<td>Assigned to entities that have, in our opinion, the strongest ability to repay their short-term financial obligations.</td>
</tr>
<tr>
<td>Outstanding</td>
<td>AMB-1</td>
<td>Assigned to entities that have, in our opinion, an outstanding ability to repay their short-term financial obligations.</td>
</tr>
<tr>
<td>Satisfactory</td>
<td>AMB-2</td>
<td>Assigned to entities that have, in our opinion, a satisfactory ability to repay their short-term financial obligations.</td>
</tr>
<tr>
<td>Adequate</td>
<td>AMB-3</td>
<td>Assigned to entities that have, in our opinion, an adequate ability to repay their short-term financial obligations; however, adverse industry or economic conditions likely will reduce their capacity to meet their financial commitments.</td>
</tr>
<tr>
<td>Questionable</td>
<td>AMB-4</td>
<td>Assigned to entities that have, in our opinion, questionable credit quality and are vulnerable to adverse economic or other external changes, which could have a marked impact on their ability to meet their financial commitments.</td>
</tr>
</tbody>
</table>

Long- and Short-Term Issuer Credit Non-Rating Designations

<table>
<thead>
<tr>
<th>Designation Symbols</th>
<th>Designation Definitions</th>
</tr>
</thead>
<tbody>
<tr>
<td>d</td>
<td>Status assigned to entities (excluding insurers) that are in default or when a bankruptcy petition or similar action has been filed and made public.</td>
</tr>
<tr>
<td>e</td>
<td>Status assigned to insurers that are publicly placed, via court order into conservation or rehabilitation, or the international equivalent, or in the absence of a court order, clear regulatory action has been taken to delay or otherwise limit policyholder payments.</td>
</tr>
<tr>
<td>f</td>
<td>Status assigned to insurers that are publicly placed via court order into liquidation after a finding of insolvency, or the international equivalent.</td>
</tr>
<tr>
<td>s</td>
<td>Status assigned to entities that are not rated; may include previously rated entities or entities that have never been rated by AM Best.</td>
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