

# AM Best Request for Comment Response: Best's National Scale Ratings

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On February 15, 2023, AM Best proposed revisions to AM Best's Rating on a National Scale (renamed as Best's National Scale Ratings [NSR]). The request for comment (RFC) period for this draft criteria procedure ended on March 28, 2023. The criteria procedure is expected to be released for use on June 15, 2023. As a result of the revisions to Best's NSR criteria procedure, there has been no impact on any published ratings. Revisions made to the final version of the Best's NSR criteria from the initial version include the following:

- Renamed criteria procedure to 'Best's National Scale Ratings'
- Included new NSR mappings for five countries: Egypt, India, Indonesia, the Philippines, and Vietnam. To denote the difference between a global issuer credit rating (ICR) and an NSR, the NSR will have an ".XX" where XX represents a two-letter country code.
- The usage of consistent definitions as outlined in other criteria procedures, such as references to ICRs, Country Risk and NSRs
- Provided greater clarity on the nine factors used to determine market characteristics for the NSR mapping. Additional language has been added to accommodate different reporting standards across jurisdictions that may lead to the use of other financial metrics and definitions.
- Included a third item that can impact the NSR. A change in the rating committee's assessment of the NSR, where a global ICR corresponds to more than one NSR.
- Other minor non-material editorial revisions. These changes add clarity or were stylistic or grammatical in nature.

AM Best did not respond individually to comments submitted during the RFC period. A total of seven (7) comments were received. For respondents who chose to remain anonymous, best efforts have been made to shield the identity of both author and company by redacting any text that could be used to identify the commenter. AM Best greatly appreciates the responses received during the public consultation period. Common themes and, when possible, questions and comments on topics have been grouped into general responses. The following frequently asked questions (FAQs) address key themes resulting from public feedback and internal review.

## FAQs

### GENERAL

#### 1) What countries are National Scale Ratings being extended to?

National Scale Ratings are being extended to five countries: Egypt, Indonesia, India, the Philippines, and Vietnam.

#### 2) Are there plans to introduce NSRs in other countries?



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At present, following the introduction of this criteria procedure update, NSRs are only available in Egypt, India, Indonesia, Mexico, the Philippines and Vietnam.

## **3) Where can I find the new NSR tables?**

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

## **4) What benefit does an NSR serve?**

An NSR is a relative measure of financial strength of (re)insurers that are domiciled in the local market. The NSR focusses on local insurance market characteristics and allow for greater comparison among domestic market participants. An NSR significantly reduces the impact of country risk that is evident within the global ICR, particularly for CRTs 3 to 5.

## **5) When can an NSR be assigned?**

An NSR can only be assigned after a company has requested an NSR. Additionally, a full review of the company's rating fundamentals on the global ICR must be reviewed and presented to rating committee to determine the global ICR from which the NSR is translated using published tables.

## **6) Will AM Best only publish an NSR?**

Any NSR published by AM Best must be accompanied by a public global ICR, and FSR where applicable.

## **7) 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, and the global ICR should be used for translating the rating into an NSR.

## **8) Are rating outlooks applied to an NSR and can they be different to the global ICRs?**

Typically, an NSR will have the same outlook as the global ICR. In certain cases, the outlooks may be different, such as where the change in the global ICR may 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.

## **9) Can NSRs be placed under review independent of the global ICR?**

Typically, an NSR will have the same under review status as the global ICR. However, in certain cases, the under review status may be different if the global ICR is expected to be unaffected by an event, but the NSR within the global ICR band has the potential to change.

## **10) Can an NSR be rated on a private basis?**

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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.

### **11) 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 in which AM Best applies an NSR.

### **12) Can a company that generates a significant portion of its business in an NSR eligible country, that is not domiciled in that NSR eligible country, be able to receive an NSR?**

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

## ASSESSING AND CALIBRATING NSRs

### **13) Are NSRs mappings set through a purely quantitative process or do qualitative assessment factor into the process?**

An initial NSR mapping is developed through a quantitative process with little qualitative assessment. Analyst judgement is then used, if necessary, to adjust the initial output to better achieve the aim of producing a scale that can discern the relative financial strength of (re)insurers in a given market.

### **14) Why are so many of the companies rated by AM Best eligible for the highest NSR, based on the NSR mappings being released?**

The calibration of NSR mappings is based on characteristics of the overall local insurance market, rather than just the portion that AM Best rates. AM Best currently rates many companies that are financially strong in the context of the markets in which we are introducing NSRs, meaning that their global ICR would translate into one of the highest NSRs if an NSR were to be assigned. Greater differentiation among market participants is expected to be achieved when a broader spectrum of (re)insurers are rated.

### **15) Can NSRs be compared to other credit rating agency's (CRA) NSRs?**

The calibration of Best's NSR is specific and unique to AM Best and solely focusses on the insurance sector. The NSRs cannot be directly compared to other CRA's NSRs as they will all have different approaches to calibration.

### **16) Can an NSR in one country be compared to an NSR in another country?**

The calibration of an NSR is specific and unique to that country based on the market characteristics of that country. For example, an NSR in Egypt cannot be compared to an NSR in India.

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## 17) When can an NSR change?

An NSR can change when either the global ICR of the (re)insurer changes, or there is a change in the NSR translation table, or when there is a change in the rating committee's assessment of the NSR, where a global ICR corresponds to more than one NSR.

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

The NSR is translated across from the global ICR. A full review of the company's ratings fundamentals, as detailed in Best's Credit Rating Methodology (BCRM), to determine the global ICR is needed. If there is 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 its local market.

## 19) If the company has an existing global ICR rating, can they obtain an NSR?

Yes. However, before an NSR can be assigned, a review of the rating fundamentals that determine the global ICR would need to be assessed.

## 20) How often are translation tables for NSRs updated?

NSR mappings are reviewed annually, or as needed to reflect market conditions and business needs. For example, a change in the country's NSR mapping could be made if the metrics used in the calculation materially change, or if there is a significant change in the country's operating environment. However, it is expected that tables should remain relatively stable.

## 21) In the calibration process, does the NSR calibration require the market to have a certain number of companies as a minimum in order to construct a reasonable NSR mapping?

There is no set minimum number of market participants that we require in order to construct an NSR mapping and our access to data means that we are able to construct an NSR mapping for most markets. However, the least developed insurance markets may have little data and therefore we may consider it inappropriate to develop an NSR mapping for that market.

## 22) Can two companies have the same global ICR but different NSR?

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

## 23) In the calibration process how does AM Best distinguish between life, non-life and composite insurers?

In the calibration process, AM Best ensures that it has sufficient market data to create the relevant distributions so that translation tables are mapped appropriately. This will include considering a

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number of financial metrics across all companies (life, non-life and composites) within the calibration. Some financial metrics may not be applicable to certain companies, for example loss and combined ratios for life insurers.

## **24) What accounting standards do the metrics used fall under? Will newer accounting standards be incorporated as they are introduced?**

The metrics used in the NSR calibration are subject to reporting standards within that country. Newer accounting items, such as IFRS 17 financial indicators, are not active in these markets at present but will be incorporated into the calibration over time.

## **25) Why has AM Best chosen the specific nine metrics listed? Would the inclusion of additional metrics better capture financial strength in a local insurance market.**

AM Best believes that the current metrics provide sufficient detail to assess the financial strength of local insurance markets. Additional metrics will be considered and incorporated moving forward as our assessment of local insurance markets evolves.

## **COUNTRY RISK**

### **26) 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 their respective markets. Country Risk is an important component of the global ICR assessment.

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

Yes. However, there are no NSRs available for CRT 1 or 2 countries at present.

### **28) What would occur if there was 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 if such a fundamental shift has occurred.

### **29) Why do NSR mappings differ for countries within the same CRT?**

The NSR mapping is based on the market characteristics of that insurance market and not on a country's CRT. The market characteristics of different insurance markets within the same CRT may be substantially different from one country to the next, making it inappropriate for countries that share a CRT to have the same NSR mapping.