RSU Rating Service Unit

Module Insurance Companies

Ratings on insurance companies

Overview

The module Insurance Companies has been designed to evaluate the solvency of companies whose main business is insurance. It covers all branches of the insurance industry including multi-branch groups; borrowers may be headquartered in industrialized or offshore countries. The rating algorithm is based on a scorecard approach where numerous quantitative and qualitative factors are combined using appropriate weightings. Market data are taken into account to reflect current economic developments. A differentiated modeling approach allows to incorporate the specific characteristics of each branch of the industry. This results in a rating grade that corresponds to the oneyear probability of default (PD). The module Insurance Companies has been included in the annual validation cycle since 2006 and has been approved for the IRB Approach in Germany since the beginning of 2007.

Scope

- The scope of the module *Insurance Companies* covers companies that, as a rule, generate more than 50% of their gross operating income from insurance business or are commonly classified as insurance companies.
- Holding companies whose subsidiaries mainly carry on insurance business are also within the scope of the module.
- Companies from all branches of the insurance industry, i.e. life and health, non-life and liability, reinsurance, as well as multi-branch groups can be rated.
- The module is designed for companies headquartered in developed countries, i.e. industrialized or offshore countries.

Limitations

- At present, the module cannot be used to assess insurance companies based in countries other than industrialized or offshore countries.
- The module is not suitable for rating insurance companies that are closed for new business.
- Social insurance institutions such as compulsory health insurance corporations also fall outside the scope of the module.

Rating Process

Quantitative and Qualitative Factors, Market Factor

The quantitative factors are determined based on balance sheet and income statement ratios. Systematic variation in these ratios due to different accounting standards is appropriately taken into account. In addition, analysts are required to perform systematic and standardized evaluations of a number of qualitative factors. To take into account current economic developments, the rating model incorporates insurance-specific CDS information.

Overrides and Warning Signals

If, at the previous stages, exceptional risk-relevant circumstances have not been sufficiently taken into account, an adjustment of the stand alone rating may be necessary. For this purpose the system provides override and warning signal functions.

Guarantee Scheme/Support and Exceptional Upgrade

Intra-group relations and guarantee schemes may have both positive and negative effects on the rating result. Supporting entities may be parent companies or governments. Moreover, excellent external ratings may, under certain circumstances, warrant an exceptional manual upgrade.

Transfer Risk

The additional risk of currency transfer restrictions in the company‘s or the support provider‘s home country is reflected in the foreign currency rating. This risk must be considered when the financing currency is different from the borrower‘s home currency.

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