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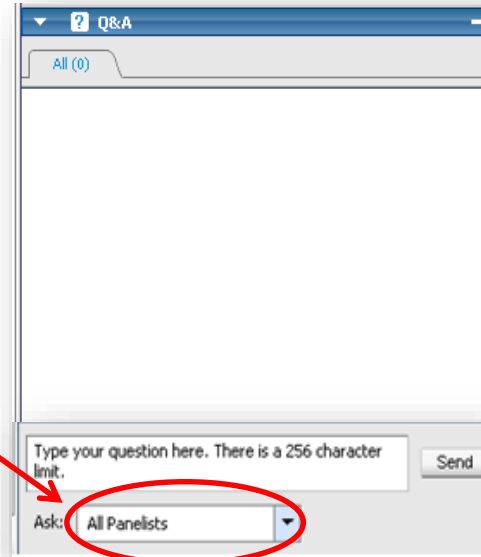
# Insurance Company Rating Agencies: An Overview for Public Policymakers

June 15, 2020 1:30 pm

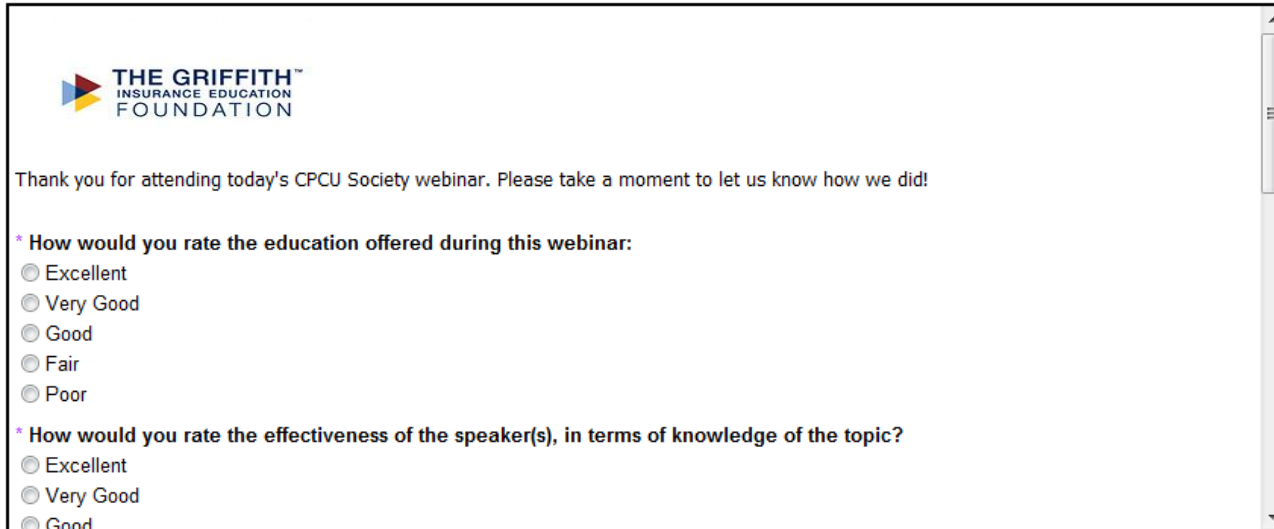
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In keeping with the missions of The Institutes Griffith Insurance Education Foundation and the Katie School of Insurance at Illinois State, today's program is strictly instructional in nature and does not support a position on any issue.



# Webinar Speakers

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Moderator

**Frank Paul Tomasello, JD**  
Senior Director, The Institutes  
Griffith Foundation



Presenter

**Kathleen McCullough, PhD**  
Associate Dean for Academic Programs  
College of Business Florida State University



# Outline for Insurance Ratings

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- What are ratings?
- Who cares? Why Now?
- Why do they care?
- Who are the rating agencies?
- Are they all the same?
- What are the major issues?





# What are insurer ratings?

- Financial Strength Ratings
  - Assess the financial strength of the insurance company
  - Claims paying ability

## GUIDE TO BEST'S FINANCIAL STRENGTH RATINGS – (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 identifier, modifier or affiliation code that denotes a unique aspect of the opinion.

(from A.M. Best website)



# Who cares?

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Consumers

Brokers / agents

Other insurers

Financial institutions

Regulators

Legislators



# Why Now?

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- Potential Impact of COVID-19 on Insurers is unknown
  - Impact on investments
  - Impact on losses
  - Impact on underlying business of the insured
  - Impact on reinsurance



# Why consumers care?

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Is this insurance company a good company?

What can ratings do?

- Evaluate the financial strength of the insurance company

What ratings cannot do?

- Make recommendations to purchase or cancel coverage
- Make recommendations on the suitability of coverage
- Be the sole factor to consider in purchasing products



# Who else cares?

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## Brokers / agents

- Recommendations
- Building insurance programs

## Other insurers

- Insurance programs and reinsurance
- Guarantee funds
- Competition



# Who else cares? – part 2

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Other financial institutions

Regulators

Legislators



# Who are the rating agencies?

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A.M. Best

Standard and Poor's

Moody's

Fitch

Demotech\*



# Are all rating agencies the same?

- Sort of -
  - Similar goal
  - Scales vary but have a basic thread

## IFS Rating Scales

Agency	Insurer Financial Strength (IFS) Rating Scale
A.M. Best	A++, A+, A, A-, B++, B+, B, B-, C++, C+, C, C-, D
Fitch	AAA, AA+, AA, AA-, A+, A, A-, BBB+, BBB, BBB-, BB+, BB, BB-, B+, B, B-, CCC, CC, C
S&P	AAA, AA+, AA, AA-, A+, A, A-, BBB+, BBB, BBB-, BB+, BB, BB-, B+, B, B-, CCC+, CCC, CCC-, CC, C
Moody's	Aaa, Aa1, Aa2, Aa3, A1, A2, A3, Baa1, Baa2, Baa3, Ba1, Ba2, Ba3, B1, B2, B3, Caa1, Caa2, Caa3, Ca, C

Source: Fitch Ratings.





# Are all rating agencies the same?

- Sort of -

Best's Financial Strength Rating (FSR) Scale			
Rating Categories	Rating Symbols	Rating Notches*	Category Definitions
Superior	A+	A++	Assigned to insurance companies that have, in our opinion, a superior ability to meet their ongoing insurance obligations.
Excellent	A	A-	Assigned to insurance companies that have, in our opinion, an excellent ability to meet their ongoing insurance obligations.
Good	B+	B++	Assigned to insurance companies that have, in our opinion, a good ability to meet their ongoing insurance obligations.
Fair	B	B-	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.
Marginal	C+	C++	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.
Weak	C	C-	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.
Poor	D	-	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.

\* 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 "-".



# Are all rating agencies the same?

- Sort of -

Insurer Financial Strength Ratings*	
Category	Definition
AAA	An insurer rated 'AAA' has extremely strong financial security characteristics. 'AAA' is the highest insurer financial strength rating assigned by S&P Global Ratings.
AA	An insurer rated 'AA' has very strong financial security characteristics, differing only slightly from those rated higher.
A	An insurer rated 'A' has strong financial security characteristics but is somewhat more likely to be affected by adverse business conditions than are insurers with higher ratings.
BBB	An insurer rated 'BBB' has good financial security characteristics but is more likely to be affected by adverse business conditions than are higher-rated insurers.
BB, B, CCC, and CC	An insurer rated 'BB' or lower is regarded as having vulnerable characteristics that may outweigh its strengths. 'BB' indicates the least degree of vulnerability within the range and 'CC' the highest.
BB	An insurer rated 'BB' has marginal financial security characteristics. Positive attributes exist, but adverse business conditions could lead to insufficient ability to meet financial commitments.
B	An insurer rated 'B' has weak financial security characteristics. Adverse business conditions will likely impair its ability to meet financial commitments.
CCC	An insurer rated 'CCC' has very weak financial security characteristics and is dependent on favorable business conditions to meet financial commitments.
CC	An insurer rated 'CC' has extremely weak financial security characteristics and is likely not to meet some of its financial commitments.
SD and D	An insurer rated 'SD' (selective default) or 'D' is in default on one or more of its insurance policy obligations. The 'D' rating also will be used upon the filing of a bankruptcy petition or the taking of similar action if payments on a policy obligation are at risk. A 'D' rating is assigned when S&P Global Ratings believes that the default will be a general default and that the obligor will fail to pay substantially all of its obligations in full in accordance with the policy terms. An 'SD' rating is assigned when S&P Global Ratings believes that the insurer has selectively defaulted on a specific class of policies but it will continue to meet its payment obligations on other classes of obligations. An 'SD' includes the completion of a distressed exchange offer. Claim denials due to lack of coverage or other legally permitted defenses are not considered defaults.
*Ratings from 'AA' to 'CCC' may be modified by the addition of a plus (+) or minus (-) sign to show relative standing within the rating categories.	

# Are all rating agencies the same?

- Sort of -
  - Similar outcomes for secure ratings

Comparison groups	Secure rating by both	Total rated by both	% secure by both
Demotech and A. M. Best	387	479	81%
Demotech and S&P	102	102	100%
Demotech and Moody's	46	46	100%
Demotech and Fitch	32	32	100%
A. M. Best and S&P	184	188	98%
A. M. Best and Moody's	30	30	100%
A. M. Best and Fitch	58	62	94%
S&P and Moody's	1328	1344	99%
S&P and Fitch	1487	1503	99%
Moody's and Fitch	1175	1191	99%

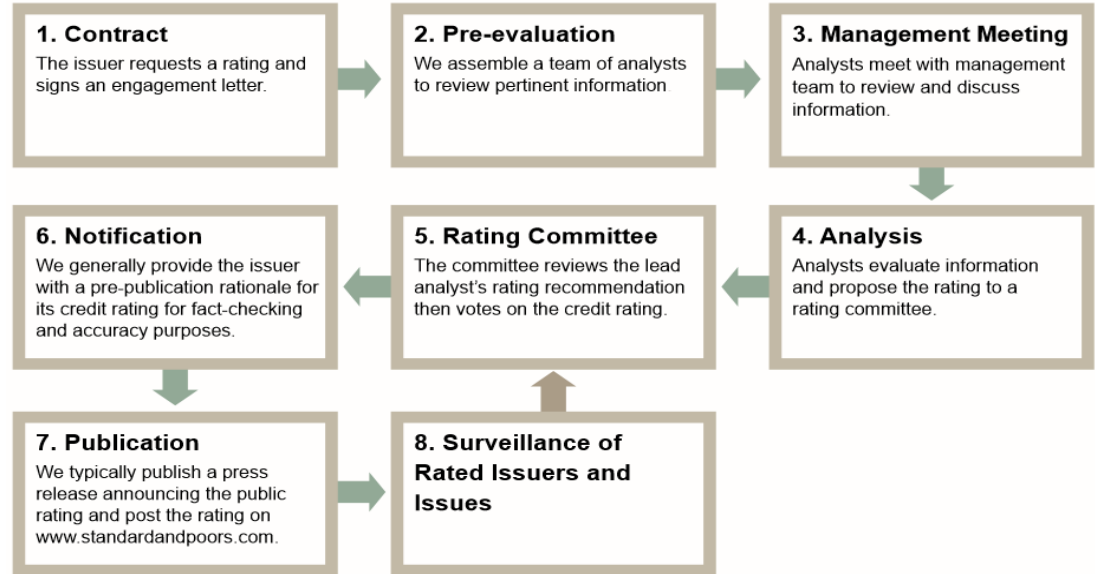
Table 4: Comparison of secure ratings among the rating agencies

(Cole, He, and McCullough, 2017)



# Are all rating agencies the same?

- A.M. Best, S&P, Moody's and Fitch
  - Solicited ratings
  - Qualitative and quantitative data



S&P Global  
Ratings

# Are all rating agencies the same?

- A.M. Best, S&P, Moody's and Fitch
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(A.M. Best Description)

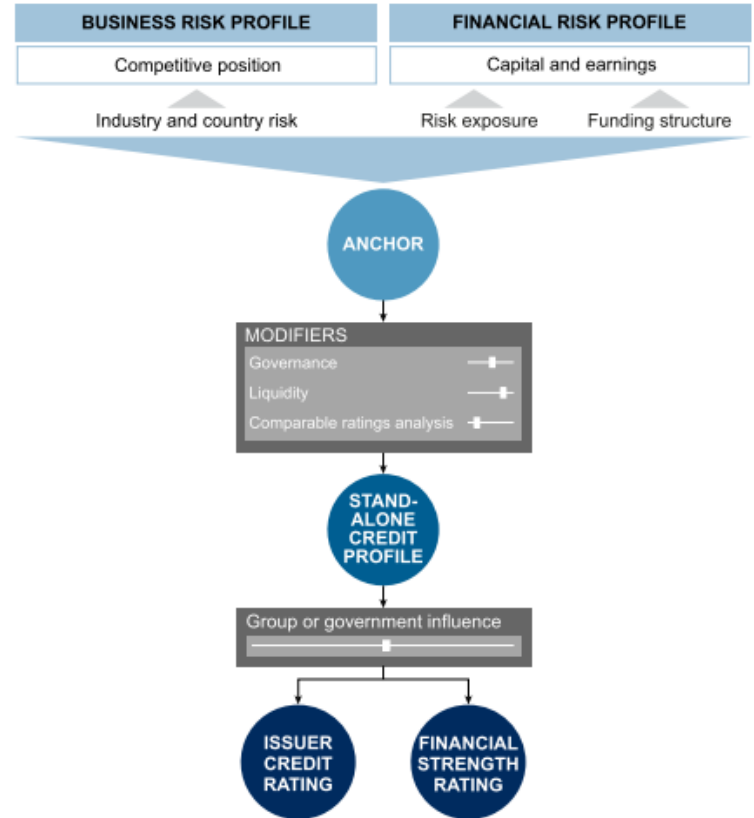


# Are all rating agencies the same?

- A.M. Best, S&P, Moody's and Fitch
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  - Qualitative and quantitative data

(sample framework from S&P)

## Insurance Ratings Framework



# Are all rating agencies the same?

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- Differences
  - Some variation in data and weighting of the data
  - Solicited vs. Unsolicited
  - Treatment of new companies or small companies



# Issues

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- Can they predict insolvency?
- Information for investors?
- Changes in buying patterns for consumers?
- Are ratings agencies good monitors?





# Issues

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- International ratings
- ERM Ratings
- Current stress testing and reports



# Question and Answer Segment

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Moderator

**Frank Paul Tomasello, JD**  
Senior Director, The Institutes  
Griffith Foundation



Presenter

**Kathleen McCullough, PhD**  
Associate Dean for Academic Programs  
College of Business Florida State University



Thank you!!

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Questions or Comments?

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