GCR RATINGS

CRITERIA FOR RATING INSURANCE COMPANIES

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Scope of the Criteria

1. This criteria titled 'Criteria for Rating Insurance Companies' ('Insurance Criteria') applies to ratings on entities defined, and regulated, as insurers by an apex regulator in any given jurisdiction. Types of insurance covered by this criteria include short term insurance, long term insurance, and reinsurance. The criteria caters for both typical and alternative business models, such as cell captive insurers, and South African medical schemes, with additional considerations for such entities included in appendices to this criteria.

2. Supranational insurers are rated using elements from this criteria (Insurance Sector Risk Score, Financial Profile) in conjunction with GCR's 'Criteria for Rating Supranational Institutions'.

Summary of the Criteria Changes

3. This criteria is based on the fundamentals used in the last updated criteria documents:
   - Global Master Criteria for Rating Short Term Insurance Companies, updated May 2018
   - Global Master Criteria for Rating Long Term Insurance Companies, updated May 2018
   - Criteria for Rating Cell Captive Insurers, updated May 2018
   - Criteria for Rating Newly Established and Start-Up Insurance Companies, updated May 2018
   - Criteria for Rating South African Medical Schemes, updated May 2018
   - Criteria for Rating Insurers' Debt and Hybrid Equity Instruments, updated May 2018

4. The major changes to the criteria are its alignment to the GCR Ratings Framework. This means the application of the risk scoring framework, the adoption of the universal country risk criteria, group classification and support criteria and management & governance criteria, and the application of specified sector risk criteria. A more consistent approach to rating debt instruments has also been adopted across the GCR Ratings Framework (see Rating Adjustment Factor 2: Instrument Ratings), which replaces the previous insurance-specific criteria for debt and hybrid equity instruments.

5. In addition, overlapping elements of previously separate criteria have been enveloped into this singular criteria, with appendices attending to additional considerations for specific business or risk types.

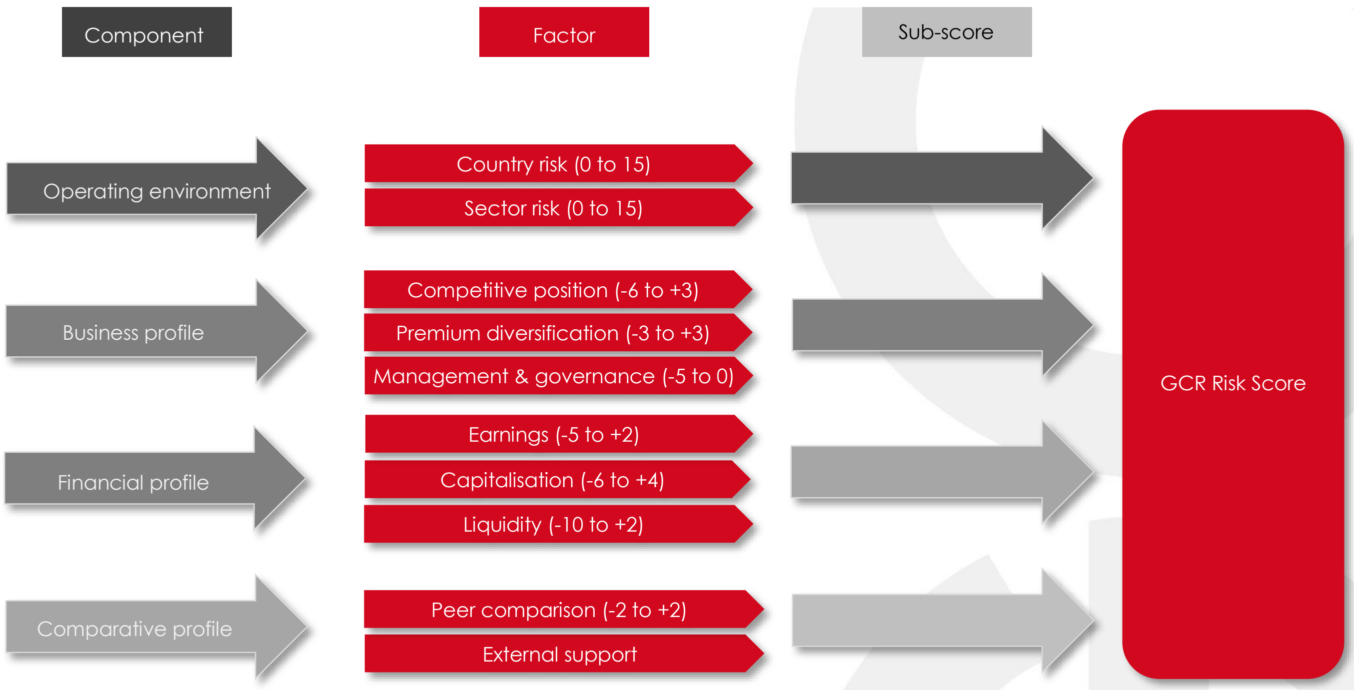
6. GCR will accord "Financial Strength" ratings to all insurers going forward, replacing the term "Claims paying ability" previously applied to short term insurers. Nevertheless, Financial Strength ratings are an equivalent assessment of an insurer's capacity to honour obligations to policyholders (i.e. the Financial Strength rating is a change in nomenclature only, and is not a change in the basis or outcome of the analysis).

An Overview of the Ratings Framework

7. In order to improve the comparability and transparency of the ratings, GCR has adopted a framework (see below) with publicly available scoring for the components and factors. The goal is to allow each stakeholder (issuer, investor, regulator, counterparty etc.) to know in detail, each of the major rating drivers and ultimately what factors may change the ratings in the future.

8. The GCR Ratings Framework centers on four major rating components (Operating Environment, Business Profile, Financial Profile and Additional Factors), which are broken down into two or three Factors, with a public positive or negative score assigned to each. The accumulation of the scores determines the GCR Risk Score, which is translated into the GCR Anchor Credit Evaluation ('ACE') using the GCR Anchor Credit Evaluator. Subsequently, this can then be converted into the international scale and/or national scale financial strength credit ratings on the specific legal entity, which includes the use of the rating adjustment factors.

Figure 1: GCR Ratings Framework Diagram for Rating Companies



Component 1: Operating Environment

(0 TO 30: 30 BEST)

9. The core of the GCR Rating Framework is based on our opinion that an entity's operating environment frames its creditworthiness. As a result, the operating environment analysis contributes the largest component of the underlying risk score for the GCR rating methodology because insurers are especially vulnerable to these factors. GCR combines elements of country risk and sectoral analysis, sometimes weighted across countries, to anchor an insurer to its current operating conditions.

Operating environment
Factor A: Country Risk (0 to 15)
• GDP Per Capita
• World Bank Governance Indicators
• WEF
Factor B: Sector Risk (0 to 15)
• Regulatory framework
• Insurance penetration
• Insurance density
• Industry composition
• Industry growth
• Industry earnings risk
• Barriers to entry
• Financial sector risk exposure

10. Furthermore, GCR is cognizant of the operating environment factors when scoring the traditional insurance fundamentals (such as capital, earnings, asset quality and liquidity), i.e. the scores in the financial profile (below) are analysed through the lens of the insurer's operating environment. This is because different operating stresses will affect insurers in different ways. For example, insurers may operate in Market A which facilitates very high operating margins, and implies limited underwriting risk. Such insurers may be perceived as carrying less credit risk than insurers in Market B with low margins, stemming from market dynamics such as high competition. However, exposure to possible developments in the operating environment of Market A (be it from country or sector based sources) may cause a shift in the earnings dynamics of such insurers, while simultaneously changing their risk based capital profiles.

Component 1, Factor A: Country Risk Score

(0 TO 15: 15 BEST)

11. Scored on a 0 (lowest) to 15 (highest) scale. GCR typically scores the weighted average of premiums by geography (although asset spreading, or other relevant risk exposures, may also be a consideration), in line with the '*Country Risk Score*' methodology as highlighted in the '*Country Risk*' section of the Criteria for GCR's Ratings Framework. See the global country risk criteria published here.

12. On occasion, an insurer may be licensed in a particular country, while most or all of its underwriting risk is outside of that country. In such instances, while the country risk of the domicile has no direct bearing on the insurer's underwriting portfolio, some indirect impact exists through potential risk to the license. The country risk score may be adjusted down in such cases.

*Example: An insurer's premiums are spread across three countries. The first country has a score of 6 and contributes 75% of premiums, the second has a score of 4 and contributes 20% of premiums and the third has a score of 2 and contributes 5% of premiums. In this case, the weighted average country score would be 5.4 or ((6*0.75) + (4*0.2)) + (2*0.05). The analyst would have the ability to round up or down depending on the expected growth of the exposures or country risk trends going forward.*

Component 1, Factor B: Insurance Sector Risk Score

(0 TO 15: 15 BEST)

13. The Insurance sector risk score amalgamates eight separate subfactors, using a mixture of qualitative and quantitative factors. The assessment looks at market-wide factors that GCR views as impacting on the credit profiles of participants. In a similar fashion to the country risk assessment, a number of external conditions and risks may have a material influence on an individual company's operating performance, with participants in lower risk insurance markets typically receiving higher risk scores, all else equal.

14. The sector risk analysis consists of elements that are assessed consistently (across all countries, and across both short term and long term sectors), as well as unique factors that are relevant to particular industries. Negative scores are not applicable because companies would not operate in countries or sectors that are wholly punitive.

15. The sector risk analysis focuses on eight subfactors:
    1. Regulatory framework
    2. Insurance penetration
    3. Insurance density
    4. Industry composition
    5. Industry growth
    6. Industry earnings risk
    7. Barriers to entry
    8. Financial sector risk exposure

16. Scores related to scale and market development may be adjusted where a sector is distorted by significant offshoring of premiums, where such premiums are not viewed to contribute towards underlying market stability and maturity.

17. **Regulatory Framework**: GCR's analysis factors in the insurance supervisory framework. GCR considers the regulatory instruments used to evaluate and monitor the insurance system, which include the forms and quality of reporting to the regulatory authorities, as well as the frequency and content of on-site examination and off-site surveillance conducted by supervision authorities. The actions and measures that regulatory authorities are empowered to use in avoiding problems and potential failures of insurers within the system are considered, and the regulatory track record of implementation, intervention, enforcement and/or risk mitigation is examined. The assessment takes into account relevant legislation governing the industry. GCR also assesses the transparency and availability of industry information. The risk score will be dragged down if GCR views the regulatory environment to be weak, with minimal supervision and lack of enforcement. Regulatory interference that is viewed to negatively impact an industry will also have a lowering impact on the score.

18. **Insurance penetration** (industry gross written premium ("GWP") as a proportion of GDP) indicates the level of significance of an insurance market within the broader economic context, and is used as an indication of the level of development of the insurance sector in a country. The metric for penetration may be

adjusted to include or exclude amounts in order to reach a consistent view that is reflective of the development of the industry.

19. **Insurance density** (GWP per capita) illustrates the extent of insurance utilisation by the underlying population. This measure contributes to an overview of the level of depth of the industry within the local context. Industries with higher levels of development tend to exhibit enhanced resilience to external shocks, while providing market participants with a framework more conducive to operational efficiencies. This notwithstanding, attention is paid to the lower underwriting or operating risks related to less developed markets in terms of product risk.

20. **Industry composition**. GCR analyses the industry structure and composition, looking at the number of participants (and the resultant level of industry concentration or fragmentation), as well as the relative positioning of those entities in terms of tiered groupings. This informs the level of relative competition within each of these sets, and influence on pricing and other competitive dynamics. Consolidation trends and intermediary functions, if pertinent, will also form part of this overview.

21. **Industry growth**. Industries with strong growth prospects allow for development and enhanced significance within the broader economic framework, while fostering potential for improving scale efficiencies and risk diversification at company level. Growth is measured by the growth in premiums, minus inflation and GDP growth. The assessment takes into consideration industry maturity, as growth in less mature markets may give rise to some earnings volatility as players, products, policyholders and legislation evolves. Growth in more mature markets may give rise to more stable earnings trajectories (although the evolution of new products in such markets may also be a source of earnings exposure).

22. **Industry earnings risk**. Industry earnings risk primarily looks at the profitability of the market. Factors such as industry cycles, the general claims patterns, the underlying risk composition, commission structures and the level of scale efficiencies may support the analysis where relevant. While economies with low penetration and low density generally exhibit higher profitability, GCR views the long-term sustainability of such margins to be exposed to potential volatility as the markets gradually develop and mature. The score takes into account earnings risk stemming from potential asset price bubbles (residential real estate, commercial real estate or equity price bubbles). Rapid growth in any asset class (typically, performance well above inflationary growth) is questioned regarding its sustainability and the imbalances it may be creating.

23. **Barriers to entry**. Barriers to entry are viewed from both a regulatory and operational perspective. In terms of the former, barriers take the form of regulatory requirements for granting licenses (inclusive of minimum capital requirements), shareholding structures, and other regulatory hurdles. Operational barriers relate to the existing competitive dynamics of the market and the space for new entrants, coupled with the availability of requisite resources. While high barriers to entry are typified by advanced markets with established players and operational frameworks, smaller markets may exhibit barriers due to capturing of key distribution channels, policyholders or risks by established players. In such instances, operational barriers to entry will contribute to the score, while regulatory barriers may not. Where barriers to entry simultaneously give rise to market distortions, however, they may be discounted.

24. **Financial sector strength**. GCR assesses the exposure of participants to the financial sector because financial institutions (particularly banks) are fundamentally exposed to systemic risk, and represent the key source of insurers' liquidity. Furthermore, the financial sector is viewed to be a bellwether of investment market performance given the interconnectedness with financial systems.[Please see Criteria for Rating Banks and 'Bank like' Financial Institutions, 2019].

Component 2: Business Profile

(-14 TO 6: 6 BEST)

Business profile
Factor A: Competitive position (-6 to +3)
• Market share
• Revenue scale and stability
Factor B: Premium diversification (-3 to +3)
• Product diversification
• Product risk
• Geographic diversification
Factor C: Management & governance (-5 to 0)

25. The Business Profile assessment is based on a series of qualitative and quantitative factors meant to ascertain the robustness of the insurance company or group's business model. This includes examining the competitiveness, diversity and stability of earnings, against the risk and complexity of operations and quality of management/ governance relative to peers operating in the same or similar markets.

Component 2, Factor A: Competitive Position

(-6 TO +3: 3 BEST)

26. The assessment of an insurer's future financial strength is strongly influenced by its competitive position, and the competitive advantages that the insurer has carved out in its chosen market(s). Competitive positioning impacts sensitivity to industry challenges, cycle management strategy, and potential for superior operating performance. Over an intermediate to long term horizon, highly competitive entities would be expected to sustain earnings strength, while defending their market position.

27. Competitive position is the first entity specific score based on a scale, from 'weak' (-6) to 'strong' (+3). The competitive position score begins by assessing the market share and revenue scale and stability subfactors, followed by adjustments reflecting company specific characteristics.

28. **Market share**. A company's market share is an indication of the degree of acceptance in the market and insurance buyers' perceptions of capacity and brand strength. An insurer's market share is considered to be (1) a contributing factor to a company's ability to respond to changing market conditions over time, and manage adverse market conditions; (2) a platform for attaining greater cost efficiencies; (3) a measure of bargaining power, pricing power, and ability to select higher quality business; and (4) a determinant of potential for strong product uptake and business retention.

29. Market share is assessed on both a nominal and relative basis. Relative market share is calculated as the insurer's GWP divided by the average industry premium (Average industry premium is calculated as Industry GWP/ Number of industry participants).

30. Market share is analysed at both a general industry level, as well as a specialist level (should a particular insurer's corporate strategy primarily target a distinct industry sub-segment). Smaller companies with a strong brand and representation in a chosen niche, specialised expertise and/or captive distribution channels are often able to protect their market position and achieve above average underwriting profitability. In this regard, GCR's assessment may take into account the insurer's market position relative to similar niche players, and/or the industry segment. Market share for insurers operating across multiple countries will be aggregated, although multinational players with material competitive global or regional strengths may have upward score adjustments as per the adjustment section below.

31. **Revenue scale and stability**. The assessment considers revenue consistency for the insurer, concentrating on the absolute returns and the stability of sources of revenue. Products with higher levels of renewals and

steady rate increases translate into a more reliable growth trend, while products with lumpy premium trends (such as large development projects) or low renewal rates could diminish revenue stability. Entities with larger scale tend to benefit from increased revenue stability, given the capacity of the enlarged premium base to absorb loss of business in strained cycles. Entities with smaller revenue bases could be exposed to greater levels of revenue volatility in such periods.

32. Adjustments may be applied to competitive position to better reflect credit characteristics. The following represent the primary set of adjustments, although additional adjustments may be applied for relevant considerations:

   a) **Franchise strength and market status**: The score may be adjusted up or down should GCR view the insurer to benefit from, or be negatively impacted by, branding and market status considerations. For example, significant reputational damage may result in losses in market share going forward. A negative adjustment may be applied to provide for potential reductions in market position. Conversely, entities may benefit from specific branding or market status strengths, which could see upward score adjustments. Examples would include smaller entities that are viewed to benefit from enhanced customer loyalty, or a positive market status, that gives rise to a higher level of business retention and revenue stability than the competitive position score would otherwise convey. Considerations for multinational players with material competitive global or regional competitive strengths are included in this adjustment.

   b) **Strategy and business model**. A particular strategy or business model may have a positive or negative adjustment. For example, an insurer with a low market share, but a strong and controlled distribution model, may have better control over revenue in negative economic cycles than a larger insurer with no controlled distribution channels, and consequently may be positively adjusted. This may include specialist businesses, with advanced capacities in niche products, captive insurers (with a small but potentially highly secure and strong revenue base), or entities with significant control over product distribution and pricing. In contrast, an insurer that pursues an aggressive growth strategy, or veers into new products with elevated risk profiles relative to the insurer's risk tolerance, may be negatively scored.

   c) **Reinsurance dependence**. Reinsurance dependence could negatively impact an insurer's rating, should it give rise to an outsized threat to the entity's business model and competitive position, relative to other comparable cedents. This would apply to insurers ceding very large proportions of their gross portfolio, who may encounter challenges in renewing on beneficial terms.

   d) **Earnings adjustment**. Market position and revenue quality are indicators of earnings potential and cycle responsiveness through pricing, selection and agility. However, the score for an entity may be negatively adjusted should it reflect weak earnings relative to its position. For example, an entity may hold large but poor quality risks or portfolios that superficially support market share, while damaging earnings. Should an entity's actual earnings be in stark contrast to its competitive position, the score may be adjusted to dilute the impact of positioning.

Table 1: Competitive position		
Score description	Score	Typical characteristics
Highest	3	Very strong market position, with a relative market share exceeding 6x. Very high levels of revenue scale and stability. Franchise strength and market status, and strategy and business model are neutral to highly positive.
High	1 to 2	Strong market position, with a relative market share between 1.5x and 6x. High levels of revenue scale and stability. Franchise strength and market status are neutral to positive.
Intermediate	-1 to 0	Intermediate market position, with a relative market share between 0.8x and 1.5x. Moderate levels of revenue scale and stability. Franchise strength and market status are typically neutral to positive.
Low	-2 to -3	Moderately weak market position, with a relative market share between 0.2x and 0.8x. Moderately weak levels of revenue scale and stability. Adjustment factors may be neutral to negative.
Lowest	-4 to -6	Weak market position, with a relative market share below 0.2x. Weak levels of revenue scale and stability. Adjustment factors may be neutral to highly negative.

THE RISK SCORE ASSESSMENT BOXES HIGHLIGHT TYPICAL CHARACTERISTICS OF A HIGHEST, HIGH, OR INTERMEDIATE (AND SO ON) SCORE. IT IS LIKELY THAT AN ENTITY HAS ONE OR MORE CHARACTERISTIC ACROSS DIFFERENT BOXES. GCR ALLOWS ANALYTICAL DECISION MAKING TO DECIDE ON THE MOST PERTINENT ELEMENTS FOR EACH RATED ENTITY. HOWEVER, TO ACHIEVE A HIGHER SCORE, THE ENTITY IS LIKELY TO EXHIBIT A NUMBER OF CUMULATIVE STRENGTHS. CONVERSELY, ANY ONE RISK CAN BRING THE SCORE DOWN TO A LOW LEVEL.

Component 2, Factor B: Premium diversification

(-3 TO +3: 3 BEST)

33. GCR analyses an insurer's premium diversification in terms of product risk, product diversification, and market diversification. Business unit diversification may also occasionally apply. High levels of concentration, in the absence of relevant mitigating factors, expose an insurer to increased revenue risk.

34. The premium diversification score ranges from lowest of -3 to highest of +3. The premium diversification score begins by assessing product and market diversification, followed by adjustments for company specific characteristics that largely focus on concentration risk.

35. **Product diversification**. Product diversification is assessed in terms of lines of business, geographic diversification, and policyholder diversification and granularity. The assessment includes an overview of the linkage between the company's distribution channel structure, market focus, and the underlying product offering. The success and alignment of distribution and marketing frameworks contribute to the development and resilience of an insurer's competitive advantages in a chosen market, while facilitating enhanced pricing and distribution controls.

36. GCR analyses diversification between lines of business on both gross and net premium bases, as well as the product risk associated therewith. Diversification benefits can also be priced into products, providing a competitive advantage over less diversified competitors. The analysis of the line of business diversification is both quantitative and qualitative. Analytical judgement may be applied to the trade-off between product diversification and product focus, should a specialised approach result in concentration that is offset by strategic advantages. Furthermore, the analysis may take into account the impact of scale on overall diversification. Geographic diversification mitigates exposure to country specific systemic risk. Geographic risk spreading is viewed in terms of both degree (across cities, countries, and continents) and materiality (limited, partial, material).

37. **Product risk.** Product risk measures the overall level of underwriting risk that the insurer is exposed to in terms of the business lines in which in participates. The lines of business in which an insurer participates impact on its financial profile due to the varying exposures, volatility and dynamics at play within each class or sub-segment.

38. Adjustments may be applied to premium diversification to better reflect credit characteristics. The following represent the primary set of adjustments, although additional adjustments may be applied for relevant considerations:
    a) **Single source concentration**: The score may be adjusted down should the entity exhibit notable concentrations to particular policyholders, risks or distribution partners.
    b) **Global or regional diversification**. The score may be adjusted upwards for globally or regionally diversified entities with material strengths across both products and geographies.
    c) **Earnings adjustment**. In similar fashion to the adjustment made to competitive position, should an entity's actual earnings be in contrast to its earnings spread, the score may be adjusted down.

Table 2: Premium diversification		
Score description	Score	Premium diversification
Highest	2 to 3	Highly diversified portfolio across multiple lines of business, with at least four lines being of material size and quality contributing meaningfully towards premiums. A high proportion of low risk products mitigates earnings volatility exposure. Geographic diversification is viewed to be strong. The highest score of 3 would typically be applicable to globally diversified entities with material strengths across both products and geographies.
Intermediate to high	0 to 1	Well diversified portfolio across multiple lines of business, with at least three lines being of material size and quality contributing meaningfully towards premiums. A high proportion of low to medium risk products mitigates earnings volatility exposure. Geographic diversification is viewed to be intermediate.
Low	-1	Somewhat diversified portfolio across multiple lines of business, with at least two lines being of material size and quality contributing meaningfully towards premiums. Product risk may be elevated, while single source concentrations may be present. Geographic diversification is viewed to be limited.
Lowest	-2 to -3	Limited portfolio diversification, with elevated product risk. Single source concentrations may be present. Geographic diversification is viewed to be limited.

The Risk Score Assessment boxes highlight typical characteristics of a highest, high, or intermediate (and so on) score. It is likely that an entity has one or more characteristic across different boxes. GCR allows analytical decision making to decide on the most pertinent elements for each rated entity. However, to achieve a higher score, the entity is likely to exhibit a number of cumulative strengths. Conversely, any one risk can bring the score down to a low level.

Component 2, Factor C: Management & Governance

(-5 to 0: 0 best)

39. Scored between 0 to -5. Please see the universal management & governance criteria.

Component 3: Financial Profile

(-21 TO 8: 8 BEST)

Financial profile
Factor A: Earnings (-5 to +2)
• Underwriting profitability
• Net profitability
Factor B: Capitalisation (-6 to +4)
• Risk based capitalisation
Factor C: Liquidity (-10 to +2)
• Liquidity ratio
• Operational cash coverage

40. An insurer's financial profile is reviewed on both an annual and cross-cycle basis, in order to gauge the fundamental financial strengths and capacities available over medium-term operating periods. The assessment is based on an analysis of Earnings, Capitalisation and Liquidity. The assessment of an insurer's financial profile is also viewed relative to the industry and peers.

Component 3, Factor A: Earnings

(-5 TO +2: 2 BEST)

41. Profitability, in terms of magnitude, stability, flexibility and sustainability, is reviewed at both the underwriting and net profit level. In this regard, a company's financial performance will ultimately drive future balance sheet strength and sustainability. Insurance companies that are able to demonstrate consistent profitability and a lower degree of volatility generally receive a positive assessment of earnings capacity.

42. The earnings score ranges from 'very weak' (-5) to 'very strong' (+2). The earnings score begins by assessing profitability on underwriting and net bases, followed by adjustments for company specific characteristics that largely focus on earnings risk.

43. **Underwriting profitability**. A track record of underwriting profitability through rating cycles attests to the relative success of the company's business model and management's ability to adapt to changing market conditions. The rating assesses a medium term average underwriting margin and margin deviation to assess the earnings potential of the portfolio.

44. **Net profitability**. Similar to the underwriting performance, net profitability is assessed through the cycle, to gauge the relative stability and overall earnings strength. Insurers that consistently generate strong net profits are better positioned to sustain credit protection metrics. The rating assesses a medium term return on revenue and margin deviation to assess total earnings potential. The consideration of other sources of sustainable income is also assessed where applicable.

45. Adjustments may be applied to earnings capacity to better reflect credit characteristics. The following represent the primary set of adjustments, although additional adjustments may be applied for relevant considerations:

    a. **Reserving risk.** The company's internal reserving approach and extent to which reserving adequacy is independently assessed, as well as the frequency of these reviews, are considered. High reserving risk, in particular stemming from long tail products, may result in negative adjustments. The absence of actuarial and/or external reserving valuations may also have a negative impact.

    b. **Reinsurance risk**. GCR may make negative adjustments should net retention levels present elevated risk to earnings. Negative adjustments may also be made for the reinsurance structure relative to the nature and size of underlying risk exposures, as well as the diversification and credit quality of the reinsurance counterparties. Premium retention trends and strategy going forward, as well as the reinsurance trade off in terms of technical profitability over a three to five year time horizon, are considered.

c. **Catastrophe risk.** Exposure to high severity event losses resulting in rapid erosion of policyholder protection. A potential shift in the frequency of such events may heighten the need for increased supervision of this risk component. GCR may adjust for the insurer's catastrophe risk management, taking into account data quality, exposure monitoring techniques and process controls.

d. **Market risk.** Market risk pertains to the risk of adverse deviations of the mark to market value of the trading portfolio or private equity activities. Entities with significant market risk exposures may be marked down, including considerations for equity risk, interest rate risk and foreign exchange risk exposure. The following specific exposures are noted:
    a. Equity Risk. Sizeable exposures to capital markets relative to peers may result in negative scoring.
    b. Foreign Exchange Risk. Should premiums and claims not be denominated in equivalent currencies, then a sharp change in exchange rates can result in a mismatch in the value of the premium collected to cover a risk, relative to the claims payout for that risk. Furthermore, reinsurance cover that has not explicitly catered for foreign exchange risk may have a significant impact on earnings. The changing value of currencies also has a direct impact on the value of the balance sheet.
    c. Interest Rate Risk. The impact on earnings due to the movements of interest rates, either directly from interest earning assets or interest-bearing liabilities or indirectly from the impact on loan losses from changes to base rates.

e. **Earnings control**. In certain circumstances, the magnitude of an insurer's profit margin may not be of material consequence. For example, an entity may be significantly overcapitalised, and expectations are for such overcapitalisation to persist, such that the need to achieve high net margins to build capital is mitigated. In such instances, earnings control (the management of margins above minimum thresholds, rather than maximum targets) may be a more relevant basis for measuring performance. Adjustments may be made to align the earnings score with the anticipated level of earnings control.

Table 3: Earnings		
Score description	Score	Typical characteristics
Highest	2	Very high and stable underwriting and net margins, with a view of sustained earnings strength through the underwriting cycle. Reinsurance deductibles are very low and limit earnings volatility, while reinsurance counterparty quality is very healthy. Reserving is viewed to be healthy, with advanced reserving valuations conducted by external parties.
High	1	High and stable underwriting and net margins, with small but manageable earnings volatility through the underwriting cycle. Reinsurance deductibles are low and limit earnings volatility while reinsurance counterparty quality is very healthy. Reserving is viewed to be healthy, with advanced reserving techniques being applied.
Intermediate	-1 to 0	Adequate to moderately low underwriting and net margins (typically in line with industry norms), with a degree of earnings volatility through the underwriting cycle. Reinsurance deductibles should be low and limit earnings volatility, although some comparatively high deductibles may exist. Reserving is viewed to be adequate, with adequate reserving techniques applied.
Low	-3 to -2	Weak underwriting and net margins, with elevated earnings volatility through the underwriting cycle. Some negative scoring for reinsurance exposures (counterparties or levels of deductibles) may apply. Reserving is viewed to be adequate to weak.
Lowest	-5 to -4	Very weak underwriting and net margins, with elevated earnings volatility through the underwriting cycle. Some negative scoring for reinsurance exposures (counterparties or levels of deductibles) may apply. Reserving may be weak to very weak.

The Risk Score Assessment boxes highlight typical characteristics of a highest, high, or intermediate (and so on) score. It is likely that an entity has one or more characteristic across different boxes. GCR allows analytical decision making to decide on the most pertinent elements for each rated entity. However, to achieve a higher score, the entity is likely to exhibit a number of cumulative strengths. Conversely, any one risk can bring the score down to a low level.

Component 3, Factor B: Capitalisation

(-6 TO +4: 4 BEST)

46. Well capitalised insurers are better positioned to withstand adverse changes in the operating, regulatory and economic environment, underwriting and investment cycles. Accordingly, the strength of a company's balance sheet and, most importantly, its ability to preserve and grow surplus capital is a key determinant of its longer term financial soundness.

47. The analysis of capital adequacy interacts with other key rating factors that contribute to the holistic credit assessment. For example, capital constraints can also limit an insurer's ability to achieve strategic objectives, which may impact future operating performance.

48. The capitalisation score ranges from 'very weak' (-6) to 'very strong' (+4). The capitalisation score centres on an assessment of risk based capital adequacy, followed by adjustments for company specific characteristics that largely focus on earnings risk.

49. **Risk based capitalisation**. GCR incorporates a risk-based solvency approach into its capital adequacy assessment. Excess capital is viewed as a buffer against adverse developments across an insurer's risk spectrum, and as such the risk-based tool provides an indication of the ability of a company to absorb unfavourable risk deviations.

50. The risk based capital measure is GCR's Capital Adequacy Ratio ('GCR CAR'). Capital reflects shareholders' funds, plus instruments approved for capital equivalence by the local regulator, minus intangibles, equity investments in non-consolidated financial companies and deferred tax assets. Risk charges are applied to underwriting risk (by line of business), market risk (by asset type), counterparty risk and operational risk (which is adjusted for operating environment risk exposure). Guaranteed capital from a shareholder may also be included in capital, while dividends that are regularly paid-out post financial year end may be extracted.

51. Risk components cover:
    a. **Underwriting exposure** associated with the quantum and composition of the risk base. Products that expose an insurer to greater reserving uncertainty and potential volatility are viewed to have a higher capital requirement.
    b. **Market risk** is capital exposure to asset prices stemming from market price volatility. Asset haircuts determine the potential impact on capital, with aggressive investment positions placing increasing strain on capital.
    c. **Credit risk** of counterparties, pertaining primarily to financial assets and premium receivables, but may be extended to all receivables should these represent a large enough portion of the balance.
    d. **Operational risk** is the risk of direct or indirect loss resulting from the inadequate or failed internal processes, people and systems or from external events. A buffer is required to cater for human and system related errors, and will take into account variations in operating environment exposure.

52. GCR may also take into account regulatory metrics, such as Solvency II risk based cover measures, comparable international equivalents, or local regulations that cater for all material risk components. Views

on capital strengths or weaknesses informed by such metrics will be factored into the capital adequacy assessment.

53. Adjustments may be applied to capitalisation to better reflect credit characteristics. The following represent the primary set of adjustments, although additional adjustments may be applied for relevant considerations:

a. **Capital scale and quality.** Small capital bases (typically below USD5m for insurers, and USD10m for reinsurers) may attract a negative adjustment, as limited capital scale may impair capital resilience in shocks. A negative adjustment may be applied to capital that is comprised of material revaluation gains that are viewed to be aggressive.

b. **Capital management**. Strong capital management is required to preserve stable levels of risk adjusted capitalisation. GCR will form a view on the company's capital management approach, inclusive of applicable policies and strategies (such as dividend, underwriting and investment policies) and may adjust the capitalisation score down should strong capital management not be in place.

c. **Capital fungibility.** An insurer's ability to absorb losses within its capital is influenced not just by its overall capital ratios but also by the location of that capital within its wider group structure. This means that published consolidated capital ratios can be misleading by implying perfect capital fungibility, while in reality there can be regulatory, accounting or tax impediments to such intra-group capital mobility, and consequently capitalisation may be negatively adjusted.

d. **Reserving risk.** While reserving adjustments may be applied to earnings capacity, negative adjustments pertaining to material potential reserve shortfalls may also be applied to capital.

e. **Statutory solvency risk**. GCR assesses an insurer's capital adequacy in the context of the local regulatory framework, and may apply negative adjustments for statutory risk. Capitalisation levels that exhibit limited buffers relative to statutory requirements, or register within a band of regulatory sensitivity, may be at risk of supervisory intervention that sees suspension of particular lines or products, or stronger action such as curatorship or license withdrawal.

f. **Financial flexibility**. The company's ability to access additional sources of capital funding may result in upward adjustments to capital. Both capital access and investor appetite are assessed relative to prevailing market dynamics and insurer-specific characteristics.

g. **Leverage**. Insurers and insurance groups with high leverage in their funding structures may be adjusted down.

h. **Start-up insurers, and insurers with turnaround strategies**. Capitalisation for a start-up or newly established entity is viewed on a long term horizon (see Appendix 3 for details on the approach to start-ups). Entities will typically be heavily capitalised upfront, while being exposed to limited risk. Growth in premiums and assets typically sees an insurer converge on a medium term capitalisation level, which forms the basis for GCR's assessment. This assessment may also be applicable to entities implementing a significant turnaround or change in strategy, with similar risk characteristics (heavily capitalised upfront, with elevated uncertainty of future earnings capacity). This would be true in particular for entities with very poor earnings track records.

Table 4: Capitalisation

Score description	Score	Typical characteristics
Highest	3 to 4	Extremely strong risk adjusted capitalisation, with very high levels of capital redundancy, often in excess of 2.5x GCR CAR. Capital scale and quality is very high. Capital management is strong to very strong, while the insurer may also benefit from financial flexibility.
High	1 to 2	Strong to very strong risk adjusted capitalisation, typically between 1.5x and 2.5x GCR CAR. Capital scale and quality is high. Capital management is strong to very strong, while the insurer may also benefit from financial flexibility.
Intermediate	-1 to 0	Intermediate risk adjusted capitalisation, typically between 1x and 1.5x GCR CAR. Capital scale and quality is intermediate to high. Capital management is strong. Financial flexibility may exist but is becoming more unlikely.
Low	-3 to -2	Weak risk adjusted capitalisation, typically below 1x GCR CAR, capable of recovering to above 1x over the short term. Capital scale and quality is low. Capital management is weak. Statutory solvency risk may apply.
Lowest	-6 to -4	Very weak risk adjusted capitalisation, well below 1x CAR, and likely remaining below 1x over the short term to medium term. Capital scale and quality is low. Capital management is very weak. Statutory solvency risk likely applies.

THE RISK SCORE ASSESSMENT BOXES HIGHLIGHT TYPICAL CHARACTERISTICS OF A HIGHEST, HIGH, OR INTERMEDIATE (AND SO ON) SCORE. IT IS LIKELY THAT AN ENTITY HAS ONE OR MORE CHARACTERISTIC ACROSS DIFFERENT BOXES. GCR ALLOWS ANALYTICAL DECISION MAKING TO DECIDE ON THE MOST PERTINENT ELEMENTS FOR EACH RATED ENTITY. HOWEVER, TO ACHIEVE A HIGHER SCORE, THE ENTITY IS LIKELY TO EXHIBIT A NUMBER OF CUMULATIVE STRENGTHS. CONVERSELY, ANY ONE RISK CAN BRING THE SCORE DOWN TO A LOW LEVEL.

Component 3, Factor C: Liquidity

(-10 TO +2: 2 BEST)

54. Liquidity is scored on a scale, from 'very weak' (-10) to 'strong' (+2). Whilst the recognition of exceptionally strong liquidity is limited, an assessment of weak liquidity can reduce the rating(s) significantly. Ultimately, this reflects our opinion that all insurers should have inherently strong liquidity positions. Scores from -4 and below reflect a particularly vulnerable liquidity position.

55. GCR's analysis of an insurer's liquidity primarily relies upon the GCR insurance liquidity ratio, which examines liquid asset coverage over liquidity demands on a short and longer term basis. Operational cash coverage is also assessed.

56. **Liquidity ratio**. Technical reserve coverage by cash and stressed financial assets. The sources of coverage include cash and other liquid assets. Whilst the haircuts deepen according to the depth and liquidity of the insurer's home market, broadly GCR views cash and near cash items (such as short term bank or money market placements) as the most liquid assets, followed by high quality bonds (typically sovereign but we would include bonds of other private of public sector entities in more developed markets), longer term bank placements, listed equities, real estate and unlisted equities, respectively. We may also include committed credit facilities from other financial institutions or group members as a source of liquidity, if they have a superior risk score or rating.

57. The liquidity demands reflect the gross amount of technical reserve requirements but also include the impact of confidence sensitive liabilities depending on the maturity and nature of the liability/debt. We may also include potential withdrawals/lapses or surrenders of life products (a stressed value based on observed lapses), the impact of catastrophe events or elements of a guarantee/trade credit liability risk, or any other liability, depending on the business and exposure of the insurer. To score within the lowest levels, we would typically see material strain in covering provisions, with challenges in meeting monthly cash claims or other short-term liabilities.

58. **Operational cash coverage**. The coverage of operational cash requirements, such as average claims and operating expenses, reflect an insurer's capacity to meet typical ongoing monthly operational cash requirements.

59. Adjustments may be applied to liquidity to better reflect credit characteristics. The following represent the primary set of adjustments, although additional adjustments may be applied for relevant considerations:

    a. **Protracted inadequate reserve coverage.** Protracted inadequate levels of reserve coverage will attract additional negative adjustments, reflecting a material inadequacy in liquidity requirements.

    b. **Strain on cash flows or liquidity headroom.** Insurers experiencing or exposed to sustained cash flow strain may have liquidity scores adjusted. Furthermore, companies with a poor or short performance track record may reflect lower tolerance for variations in liquidity, with negative adjustments reflecting this limited liquidity headroom. Constraints on the fungibility of liquidity within a group may also have a negative impact.

    c. **Additional asset liability matching adjustments** may be applied, such as the matching of asset liability maturity profiles, or practical concerns related to the disposal of assets used to calculate reserve coverage.

    d. **Liquidity management**. Negative adjustments pertaining to inadequate liquidity management policies which may contribute towards weak future liquidity metrics.

    e. **Banking counterparty risk.** Weaknesses in aggregated banking counterparty risk may give rise to negative adjustments. Material banking counterparty concentration may also have a negative impact.

    f. **Covenant Risk.** For insurance groups with debt the presence and proximity to covenants is an important factor when assessing the stability of funds. Covenants that trigger funding accelerations, events of default or cross defaults clauses are of particular importance and the notching downwards should reflect this.

Table 5: Liquidity		
Score description	Score	Typical characteristics
Highest	2	>2.5x coverage of technical reserves. Average operational cost coverage by cash and cash flows is very strong.
Very high	1	2x-2.5x coverage of technical reserves. Average operational cost coverage by cash and cash flows is strong.
High	0	1.5x-2x coverage of technical reserves. Average operational cost coverage by cash and cash flows is moderately strong.
Intermediate	-1 to -2	1x-1.5x coverage of technical reserves. Average operational cost coverage by cash and cash flows is intermediate.
Low to very low	-3 to -4	<1x coverage of technical reserves. Average operational cost coverage by cash and cash flows is weak. Liquidity management and cash flow strain adjustments may be applicable.
Lowest	-5 to -10	Very low coverage of technical reserves, with protracted inadequate reserve coverage and strain on cash flows or liquidity headroom. Material deficiencies in asset liability mismatching and liquidity management.

The risk score assessment boxes highlight typical characteristics of a highest, high, or intermediate (and so on) score. It is likely that an entity has one or more characteristic across different boxes. GCR allows analytical decision making to decide on the most pertinent elements for each rated entity. However, to achieve a higher score, the entity is likely to exhibit a number of cumulative strengths. Conversely, any one risk can bring the score down to a low level. We will blend the scores for multiline insurance groups depending the premium contribution.

Component 4: Comparative Profile

(VARIOUS)

Comparative profile
Factor A: Group support (various)
Factor B: Government support (various)
Factor C: Peer analysis (-2 to +2)

60. The last component takes into account comparative considerations, factoring in ongoing group or extraordinary sovereign support, and peer comparison considerations.

Component 4, Factor A: Group Support

61. For details on group support please see the universal group classification & support criteria.

Component 4, Factor B: Government Support

62. For details on government support, please see the country risk criteria.

Component 4, Factor C: Peer Analysis

(-2 TO +2: 2 BEST)

63. GCR allows up to two positive or negative risk score changes to create greater credit differentiation. Typically, these notches should be used when an insurer is a generally better or worse performing company than its peer group across a number of fields, but no one factor has created ratings differential.

Final Rating Adjustment Factors

64. Once the risk score and the ACE has been established, on either/ both the national or international scale we can then establish the issuer credit ratings on legal entities. At this stage we move off the risk scoring framework and start adjusting on the national/ international rating scale basis because we are trying to establish the most applicable credit ratings hierarchy within a financial group and most appropriate hierarchy within a market.

Rating Adjustment Factor 1: Insurance Specific Structural Factors

65. GCR will typically base our credit scoring on the financial and business characteristics of the closest consolidated group (when there is one) around that legal entity. This is because we believe there is tangible likelihood of risk transfer either up from subsidiaries, across from sister companies or down from a holding company/ parent. It is in this section that we address these risks, to hone in on the correct rating for that legal entity.

    The Group Classification and Support criteria is the predominant guide for this decision-making process. These are the principles of the adjustments:

66. There should be no adjustment from the ACE for the **major operating entity**, of the analysed analytical object. An example of this is the major operating insurer within a financial group, which usually has above 51% of total group assets or capital. However, it could be smaller and still be operationally critical to the group.

67. **Minor group subsidiary / affiliates** are analysed on a standalone basis and then allocated support uplift, if necessary, in line with the Group Classification & Support Criteria.

68. **Non-operating holding companies ('NOHC')** are typically structurally subordinated from the major operating entities within a prudentially regulated insurance group. This is because they are reliant on the upstreaming of dividends or cash to pay debt, which can be interrupted by regulatory or legal actions. The ratings on NOHC's should be notched down at least once to reflect this risk. The notching may increase if the NOHC has a large amount of double leverage (defined as equity investments in subsidiaries, plus holding company intangibles, to holding company core equity) and/ or weak liquidity.

69. **Operating holding companies ('OHC')** typically will be treated like a NOHC. However, if the leverage is immaterial and potential regulatory intervention is expected to be minimal and the operations of the OHC are integral to the group, then GCR could match the ratings to the group ACE.

70. **Intermediate non-operating holding companies ('INOHC')** typically will be treated like NOHC. However, if the group benefits from parent or government support and that support has to flow through the INOHC, then the ratings would match the group ACE.

Rating Adjustment Factor 2: Instrument Ratings

71. The notching from the legal entity rating will depend on the nature of the instrument, whilst always respecting the credit hierarchy.

Table 6: Instrument ratings

Debt Rating Types	Notching	Typical Characteristics
Preferred liabilities	0	Liabilities ranked pari passu with obligations to policyholders
Senior unsecured	-1	Contractually senior, unsecured obligations undertaken, or debt issued, by an insurer.
Senior subordinated	-2	Contractually subordinated debt, potentially a regulatory tier two capital instrument, but it should not have any discretionary/ mandatory/ statutory non-payment or write down clauses. This may or may not include sovereign support notching, depending on whether GCR believes such support will come when the insurer is a going concern.
Junior subordinated	-3	Contractually subordinated debt, usually a regulatory tier two capital instrument, likely to have a discretionary/ mandatory/ statutory non-payment or write down clauses that mean the instrument will take losses as the insurer remains a going concern. This may or may not include sovereign support notching, depending on whether GCR believes such support will come when the insurer is a going concern.
Hybrids (a)	-5	Contractually subordinated debt, additional tier one capital instrument, typically perpetual even if potentially callable by management after 5 years, non-cumulative, likely to have a discretionary/ mandatory/ statutory non-payment, conversion or write down clauses with trigger points that mean the instrument will take losses as the financial institution remains a going concern. GCR may choose to exclude the impact of sovereign or group support notches to the starting point, if support is not expected to be forthcoming
Hybrids (b)	-6 or more	All of Hybrids (a) plus the presence of capital / liquidity or rating triggers that would mean the instrument could take losses on a going concern basis. GCR would typically notch down according to the proximity of the trigger, whilst respecting the credit hierarchy. Typically, GCR would remove any sovereign or group support from the ratings on such notes.

Appendices

Appendix 1: Additional Considerations for Long Term Insurance Companies

72. Some differences are applied when assessing long term insurers' earnings capacity, liquidity and capital adequacy, as per the following:

73. **Earnings capacity**

    A. The operating margin is assessed in place of the underwriting margin.
    B. Exposure to policyholder lapses and surrenders may result in application of negative adjustments.
    C. Considerations related to Embedded Value and the Value of New Business may result in positive or negative earnings adjustments.
    D. Considerations related to the actuarial valuation may result in negative earnings adjustments.

74. **Liquidity.** The assessment considers the need for long term insurers to match the maturity profile and yields of assets with the concomitant liabilities.

Appendix 2: Additional Considerations for Cell Captive Insurers

75. Some differences are applied when assessing cell captive insurers' competitive position, earnings capacity, premium diversification, liquidity and capital adequacy.

76. **Competitive position**. GCR considers the market position of the entity within the cell captive segment and broader insurance market, as well as the regulatory framework as it relates to cell captives in the relevant jurisdiction(s).

77. **Earnings capacity**. Earnings capacity is assessed at both the cell and promoter levels, as the performance of individual cells impacts on the overall profitability of the cell captive and potentially on its capital requirements.

78. **Premium diversification**. The revenue and net premium contributions of the cells is considered when assessing earnings diversification and potential concentrations.

79. **Capitalisation**. Assessment of the consolidated capitalisation of the cell captive and of each of the third party cells is conducted, as it is assumed that insufficient capitalisation at the cell level would result in a need for the cell captive to fund the difference to meet third party policyholder obligations (if the cell owner is unable to do so). The cells' level of capitalisation is compared to minimum regulatory capital requirements and the cell captive's internal capital benchmarks.

80. **Liquidity**. The liquidity assessment may include assessment of asset liability matching within individual cells, as this has a bearing on the cells' ability to meet policyholder obligations with available investment assets. The contractual arrangements or investment mandates between the cell owners and cell captive are also assessed, given that this has an impact on the cell captive's overall investment allocation strategy.

Appendix 3: Additional Considerations for Start-up and New Insurance Companies

81. When assessing start-up insurance companies, emphasis is placed on a forward looking short to medium term view.

82. **Financial projections**. All factors are assessed using financial projections (typically over a five year period) to form a view of potential earnings and balance sheet strength as the insurer executes its growth strategy. This is accompanied by assessment of management's strategic objectives, targeted business mix, asset allocation policy and initial capitalisation and capital structure, to gauge the reasonableness of budget assumptions through the medium term operating cycle (and apply analytical stresses or adjustments where necessary).

83. **Earnings capacity** scores are typically capped at "intermediate" levels, owing to a lack of performance track record.

84. **Capitalisation** scores are typically capped at "intermediate" levels, as low risk exposures through the business's developmental phase tend to inflate upfront risk adjusted capitalisation. GCR will wait for an established business position to be achieved before removing the cap, in order to limit volatility in forward looking capitalisation assessments.

Appendix 4: Additional Considerations for South African Medical Schemes

85. The factors of competitive position, earnings and liquidity for South African Medical Schemes have differing considerations.

Considerations for competitive position

86. A medical scheme's competitive position is primarily a function of the quality and characteristics of the scheme's membership base, coupled with the capacities of the scheme to manage that base. Over an intermediate to long term horizon, medical schemes whose membership bases and management capabilities exhibit superior qualities would be expected to control earnings, while sustaining a stable overall risk profile.

87. Competitive position is based on a scale, from 'weak' (-3) to 'strong' (+3). The competitive position score begins by assessing the Membership scale, profile and diversification subfactors, followed by adjustments reflecting company specific characteristics.

88. **Membership scale**. The size of the membership base may contribute positively to credit strength in the medical schemes industry. The benefits of size include membership base diversification and cross-subsidisation, economies of scale and potential for improved negotiating leverage with service providers. This notwithstanding, the ability to attract specific target groupings that allow for a favourable risk profile and consequent strong performance forms a material analytical component. Furthermore, the capacity to implement adequate contribution rate increases on a consistent basis, while minimising membership losses or significant option buy-downs contributes to financial performance sustainability over the medium to longer term.

89. **Membership profile**. The membership profile is based on the average age profile of the scheme by looking at the average beneficiary age and the pensioner ratio. The scheme's age profile directly contributes to the overall risk profile of the member pool, whereby schemes who are able to attract and retain younger members are viewed to be better positioned to contain claims.

90. **Membership diversification**. Membership diversification pertains primarily to sectoral diversification, in so far as it impacts on the stability of the membership base. Higher concentrations towards specific sectors, employer groups and/or intermediaries could potentially expose the membership base to greater levels of volatility during economic downturns.

91. Competitive position includes an adjustment for **Risk design management**. GCR assesses a scheme's risk profile management to ascertain the alignment of pricing and benefit design, while also analysing the level of claims predictability, which would support a competitive operational profile and enhance capacity to manage earnings through tight market cycles.

Table 7: Competitive position for medical schemes		
Score description	Score	Typical characteristics
Highest	3	Very strong market position, with market share (based on principal members) exceeding 10%. Very high levels of membership stability and diversification. Highly favourable age profile. Demonstrated track record of implementing adequate and consistent contribution rate increases that support sustainable financial performance.
High	1 to 2	Strong market position, with market share (based on principal members) between 10% and 6%. High levels of membership stability and diversification. Moderately favourable age profile. Some evidence of consistency in implementing contribution rate increases supporting moderately strong financial performance. Membership suitability is neutral to positive.
Intermediate	0	Strong market position, with a market share between 6% and 4%. Moderate levels of membership stability and diversification. Moderately favourable age profile. Membership suitability is typically neutral to positive.
Low	-1	Moderately weak market position, with a market share between 4% and 2%. Low levels of membership stability and diversification. Age profile is considered to be elevated and above the industry mean. Adjustment factors may be neutral to negative.
Lowest	-2 to -3	Weak market position, with a market share below 2%. Weak levels of stability and diversification. Highly aged member profile, well above the industry mean. Adjustment factors may be neutral to highly negative.

Considerations for earnings

92. The net healthcare margin and net margin are used in place of the underwriting margin and return on revenue respectively.

93. **Loss absorption capacity**: Schemes with very strong solvency levels do allow for more competitive contribution rate increases (at least over the short term). When such a strategy is implemented as a deliberate measure by management to release a portion of reserves to the benefit of members, GCR may apply a positive adjustment to limit the impact of the associated short to medium term earnings pressure provided solvency is deemed to be very strong.

Considerations for liquidity

94. The liquidity assessment utilises net cash and gross cash coverage of average monthly claims, as well as a cash flow based metric in place of cash coverage of net technical provisions and average monthly claims. The additional cash flow metric takes cognisance of schemes consistent cash flow collection capabilities, and measures the level of operational cash flow available from premium collection to cover all claims and underwriting expenses.

GLOSSARY OF TERMS/ACRONYMS USED IN THIS DOCUMENT AS PER GCR'S GLOSSARY

Accounting	A process of recording, summarising, and allocating all items of income and expense of the company and analysing, verifying and reporting the results.
Advance	A lending term, to transfer funds from the creditor to the debtor.
Asset Quality	Refers primarily to the credit quality of a bank's earning assets, the bulk of which comprises its loan portfolio, but will also include its investment portfolio as well as off balance sheet items. Quality in this context means the degree to which the loans that the bank has extended are performing (ie, being paid back in accordance with their terms) and the likelihood that they will continue to perform.
Asset	A resource with economic value that a company owns or controls with the expectation that it will provide future benefit.
Assets	A resource with economic value that a company owns or controls with the expectation that it will provide future benefit.
Balance Sheet	Also known as Statement of Financial Position. A statement of a company's assets and liabilities provided for the benefit of shareholders and regulators. It gives a snapshot at a specific point in time of the assets the company holds and how they have been financed.
Beneficiary	Nominated person or institution in the policy document that is entitled to receive the proceeds stated in the policy.
Benefits	Financial reimbursement and other services provided to insureds by insurers under the terms of an insurance contract.
Bond	A long term debt instrument issued by either a company, institution or the government to raise funds.
Budget	Financial plan that serves as an estimate of future cost, revenues or both.
Callable	A provision that allows an Issuer the right, not the obligation, to repurchase a security before its maturity at an agreed price. The seller has the obligation to sell the security if the call option holder exercises the option.
Capacity	The largest amount of insurance available from a company. In a broader sense, it can refer to the largest amount of insurance available in the marketplace.
Capital Adequacy	A measure of the adequacy of an entity's capital resources in relation to its risks.
Capital Base	The issued capital of a company, plus reserves and retained profits.
Capital Markets	The part of a financial system concerned with raising capital by dealing in shares, bonds, and other long-term debt securities.
Capital	The sum of money that is invested to generate proceeds.
Capitalisation	The provision of capital for a company, or the conversion of income or assets into capital.
Cash Flow	The inflow and outflow of cash and cash equivalents. Such flows arise from operating, investing and financing activities.
Cash	Funds that can be readily spent or used to meet current obligations.
Catastrophe	An event, which causes a loss of extraordinary magnitude.
Cede	To transfer all or part of a risk written by an insurer (the cedant or primary company) to a reinsurer.
Cedent	The party that transfers it's right in a cession.
Claim	1. A request for payment of a loss, which may come under the terms of an insurance contract (insurance). 2. A formal request or demand (corporate finance).
Commission	A certain percentage of premiums produced that is received or paid out as compensation by an insurer.
Concentrations	A high degree of positive correlation between factors or excessive exposure to a single factor that share similar demographics or financial instrument or specific sector or specific industry or specific markets.
Conditions	Provisions inserted in an insurance contract that qualify or place limitations on the insurer's promise to perform.
Contract	An agreement by which an insurer agrees, for a consideration, to provide benefits, reimburse losses or provide services for an insured. A 'policy' is the written statement of the terms of the contract.
Country Risk	The range of risks emerging from the political, legal, economic and social conditions of a country that have adverse consequences affecting investors and creditors with exposure to the country, and may also include negative effects on financial institutions and borrowers in the country.
Covenant	A provision that is indicative of performance. Covenants are either positive or negative. Positive covenants are activities that the borrower commits to, typically in its normal course of business. Negative covenants are certain limits and restrictions on the borrowers' activities.
Coverage	The scope of the protection provided under a contract of insurance.
Credit Assessment	See GCR Rating Scales, Symbols and Definitions.
Credit Rating	An opinion regarding the creditworthiness of an entity, a security or financial instrument, or an issuer of securities or financial instruments, using an established and defined ranking system of rating categories.

Credit Risk	The possibility that a bond issuer or any other borrowers (including debtors/creditors) will default and fail to pay the principal and interest when due.
Credit	A contractual agreement in which a borrower receives something of value now, and agrees to repay the lender at some date in the future, generally with interest. The term also refers to the borrowing capacity of an individual or company
Creditworthiness	An assessment of a debtor's ability to meet debt obligations.
Debt	An obligation to repay a sum of money. More specifically, it is funds passed from a creditor to a debtor in exchange for interest and a commitment to repay the principal in full on a specified date or over a specified period.
Deductible	The portion of an insured loss to be borne by the insured before he is entitled to recovery from the insurer.
Default	A default occurs when: 1.) The Borrower is unable to repay its debt obligations in full; 2.) A credit-loss event such as charge-off, specific provision or distressed restructuring involving the forgiveness or postponement of obligations; 3.) The borrower is past due more than X days on any debt obligations as defined in the transaction documents; 4.) The obligor has filed for bankruptcy or similar protection from creditors.
Distribution Channel	The method utilised by the insurance company to sell its products to policyholders.
Diversification	Spreading risk by constructing a portfolio that contains different exposures whose returns are relatively uncorrelated. The term also refers to companies which move into markets or products that bear little relation to ones they already operate in.
Dividend	The portion of a company's after-tax earnings that is distributed to shareholders.
Economies Of Scale	Economies of scale are the cost advantages of an increase in output if the fixed costs of doing so, such as those for plant and equipment, remain the same. The marginal cost, or the cost of the last unit of production, falls as output is raised.
Enforcement	To make sure people do what is required by a law or rule et cetera.
Environment	The surroundings or conditions in which an entity operates (Economic, Financial, Natural).
Equity Investment	An instrument that signifies an ownership position of shares of stock in a company that is either listed or traded on a stock exchange (also known as a counter) or are unlisted.
Equity	Equity is the holding or stake that shareholders have in a company. Equity capital is raised by the issue of new shares or by retaining profit.
Exchange Rate	The value of one country's currency expressed in terms of another.
Exposure	Exposure is the amount of risk the holder of an asset or security is faced with as a consequence of holding the security or asset. For a company, its exposure may relate to a particular product class or customer grouping. Exposure may also arise from an overreliance on one source of funding. In insurance, it refers to an indvdual or company's vulnerability to varous risks
Financial Flexibility	The company's ability to access additional sources of capital funding.
Financial Institution	An entity that focuses on dealing with financial transactions, such as investments, loans and deposits.
Financial Year	The year used for accounting purposes by a company or government. It can be a calendar year or it can cover a different period, often starting in April, July or October. It can also be referred to as the fiscal year.
Going Concern	An accounting convention that assumes a company will continue to exist and trade normally for the foreseeable future. In practice this is likely to mean at least for the next 12 months.
Guarantee	An undertaking in writing by one person (the guarantor) given to another, usually a bank (the creditor) to be answerable for the debt of a third person (the debtor) to the creditor, upon default of the debtor.
Haircut	The percentage by which the market value of an asset is reduced. The size of the haircut reflects the expected ease of selling the asset and the likely reduction necessary to realised value relative to the fair value.
Hybrid	A form of security that has characteristics of various types of transaction or product.
Income	Money received, especially on a regular basis, for work or through investments.
Insurance	Provides protection against a possible eventuality.
Interest Rate Risk	The potential for losses or reduced income arising from adverse movements in interest rates.
Interest Rate	The charge or the return on an asset or debt expressed as a percentage of the price or size of the asset or debt. It is usually expressed on an annual basis.
Interest	Scheduled payments made to a creditor in return for the use of borrowed money. The size of the payments will be determined by the interest rate, the amount borrowed or principal and the duration of the loan.
Intermediary	A third party in the sale and administration of insurance products.

International Scale Rating.	An opinion of creditworthiness relative to a global pool of issuers and issues.
Issuer	The party indebted or the person making repayments for its borrowings.
Junior	A security that has a lower repayment priority than senior securities.
LC	An LC is a guarantee by a bank on behalf of a corporate customer that payment will be made if that entity cannot to meet its obligations.
Leverage	With regard to corporate analysis, leverage (or gearing) refers to the extent to which a company is funded by debt.
Liabilities	All financial claims, debts or potential losses incurred by an individual or an organisation.
Liability	All financial claims, debts or potential losses incurred by an individual or an organisation.
Liquid Assets	Assets, generally of a short term, that can be converted into cash.
Liquidity	The speed at which assets can be converted to cash. It can also refer to the ability of a company to service its debt obligations due to the presence of liquid assets such as cash and its equivalents. Market liquidity refers to the ease with which a security can be bought or sold quickly and in large volumes without substantially affecting the market price.
Loan	A sum of money borrowed by a debtor that is expected to be paid back with interest to the creditor. A debt instrument where immovable property is the collateral for the loan. A mortgage gives the lender a right to take possession of the property if the borrower fails to repay the loan. Registration is a prerequisite for the existence of any mortgage loan. A mortgage can be registered over either a corporeal or incorporeal property, even if it does not belong to the mortgagee. Also called a Mortgage bond.
Long-Term Rating	A long term rating reflects an issuer’s ability to meet its financial obligations over the following three to five year period, including interest payments and debt redemptions. This encompasses an evaluation of the organisation’s current financial position, as well as how the position may change in the future with regard to meeting longer term financial obligations.
Long-Term	Not current; ordinarily more than one year.
Loss	1. A tangible or intangible, financial or non-financial loss of economic value. 2. The happening of the event for which insurance pays (insurance).
Mandate	Authorisation or instruction to proceed with an undertaking or to take a course of action. A borrower, for example, might instruct the lead manager of a bond issue to proceed on the terms agreed.
Margin	A term whose meaning depends on the context. In the widest sense, it means the difference between two values.
Market Risk	Volatility in the value of a security/asset due to movements in share prices, interest rates, currencies, commodities or wider economic factors.
Market	An assessment of the property value, with the value being compared to similar properties in the area.
Maturity	The length of time between the issue of a bond or other security and the date on which it becomes payable in full.
Multinational	A company that operates commercially in a number of countries outside of the one wherein it is based. Such companies are often listed on more than one stock exchange or have shares available via depository receipts.
Net Profit	Trading/operating profits after deducting the expenses detailed in the profit and loss account such as interest, tax, depreciation, auditors' fees and directors' fees.
Net Retention	The amount of insurance that a ceding company keeps for its own account and does not reinsure.
Notching	A movement in ratings.
Obligation	The title given to the legal relationship that exists between parties to an agreement when they acquire personal rights against each other for entitlement to perform.
Offset	A right (Right of Offset) to set liabilities against assets in any dispute over claims.
Operating Margin	Operating margin is operating profit expressed as a percentage of a company's sales over a given period.
Operational Risk	The risk of loss resulting from inadequate or failed internal processes, people or systems or from external events. This includes legal risk, but excludes strategic risk and reputational risk.
Option	An option gives the buyer or holder the right, but not the obligation, to buy or sell an underlying financial asset at a pre-determined price.
Pari Passu	Side by side; at the same rate or on an equal footing. Securities issued with a pari passu clause have rights and privileges that are equivalent to those of existing securities of the same class.
Performing	An obligation that performs according to its contractual obligations.
Policy	The legal document issued by the company to the policyholder, which outlines the conditions and terms of the insurance.
Policyholder	The person in actual possession of an insurance policy.

Pool	An organisation of insurers or reinsurers through which particular types of risk are underwritten and premiums, losses and expenses are shared in agreed-upon amounts.
Portfolio	A collection of investments held by an individual investor or financial institution. They may include stocks, bonds, futures contracts, options, real estate investments or any item that the holder believes will retain its value.
Premium	The price of insurance protection for a specified risk for a specified period of time.
Pricing	A process of determining the price of a debt security.
Principal	The total amount borrowed or lent, e.g. the face value of a bond, excluding interest.
Private	An issuance of securities without market participation, however, with a select few investors. Placed on a private basis and not in the open market.
Provision	The amount set aside or deducted from operating income to cover expected or identified loan losses.
Real Estate	Property that consists of land and / or buildings.
Receivables	Any outstanding debts, current or not, due to be paid to a company in cash.
Regulatory Capital	The total of primary, secondary and tertiary capital.
Reinsurance	The practice whereby one party, called the Reinsurer, in consideration of a premium paid to him agrees to indemnify another party, called the Reinsured, for part or all of the liability assumed by the latter party under a policy or policies of insurance, which it has issued. The reinsured may be referred to as the Original or Primary Insurer, or Direct Writing Company, or the Ceding Company.
Release	An agreement between the creditor and debtor, in terms of which the creditor release the debtor from its obligations.
Renewal	The re-establishment of the in-force status of a policy, the term of which has expired or will expire unless it is renewed.
Reserve Requirement	Minimum amount of cash or cash equivalents (computed as a percentage of deposits) that banks are required by law to keep on hand, and which may not be used for lending or investing. Reserve requirements serve as a safeguard against a sudden and inordinate demand for withdrawals, and as a control mechanism for injecting cash (liquidity) into, or withdrawing it from, an economy.
Reserve	(1) An amount representing actual or potential liabilities kept by an insurer to cover debts to policyholders. (2) An amount allocated for a special purpose. Note that a reserve is usually a liability and not an extra fund. On occasion a reserve may be an asset, such as a reserve for taxes not yet due.
Reserves	A portion of funds allocated for an eventuality.
Retention	The net amount of risk the ceding company keeps for its own account.
Revaluation	Formal upward or downward adjustment to assets such as property or plant and equipment.
Risk Management	Process of identifying and monitoring business risks in a manner that offers a risk/return relationship that is acceptable to an entity's operating philosophy.
Risk	The chance of future uncertainty (i.e. deviation from expected earnings or an expected outcome) that will have an impact on objectives.
Senior	A security that has a higher repayment priority than junior securities.
Shareholder	An individual, entity or financial institution that holds shares or stock in an organisation or company.
Short Term	Current; ordinarily less than one year.
Solvency	With regard to insurers, having sufficient assets (capital, surplus, reserves) and being able to satisfy financial requirements (investments, annual reports, examinations) to be eligible to transact insurance business and meet liabilities.
Spread	The interest rate that is paid in addition to the reference rate for debt securities.
Statutory	Required by or having to do with law or statute.
Subordinated Debt	Debt that in the event of a default is repaid only after senior obligations have been repaid. It is higher risk than senior debt.
Surrender	The termination of a life insurance policy while the life assured is still alive in return for a cash sum.
Surveillance	Process of monitoring a transaction according to triggers, covenants and key performance indicators.
Systemic Risk	Risk of failures within the financial system that relate to settlement, payment or a default of a financial institution.
Underwriting Margin	Measures efficiency of underwriting and expense management processes.
Underwriting	The process of selecting risks and classifying them according to their degrees of insurability so that the appropriate rates may be assigned. The process also includes rejection of those risks that do not qualify.
Upstream	A term referring to the exploration and extraction of a commodity, in contrast with the downstream manufacturing and processing.

Valuation	An assessment of the property value, with the value being compared to similar properties in the area.
Weighted Average	An average resulting from the multiplication of each component by a factor reflecting its importance or, relative size to a pool of assets or liabilities.
Weighted	The weight that a single obligation has in relation to the aggregated pool of obligations. For example, a single mortgage principal balance divided by the aggregated mortgage pool principal balance.
Yield	Percentage return on an investment or security, usually calculated at an annual rate.