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 companies covered include short-term insurance, long-term insurance, and reinsurance companies. 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. A number of minor changes have been made since the last update in May 2019. Firstly, we have separated the three ('3') major insurance types in the sector risk score (Life, Non-Life and Medical) for key markets and streamlined the business profile assessment by consolidating premium diversification into competitive position. Within the Financial Profile we have simplified our approach to the Earnings assessment by refocusing on fewer key ratios on a forward-looking basis. Within the Capitalisation assessment, we have changed some risk charges within the GCR capital ratio and expanded/ clarified the adjustments made after the initial Capitalisation score. The Liquidity Assessment has been changed to a forward looking uses versus sources approach to capture 12-month risks across Insurers.

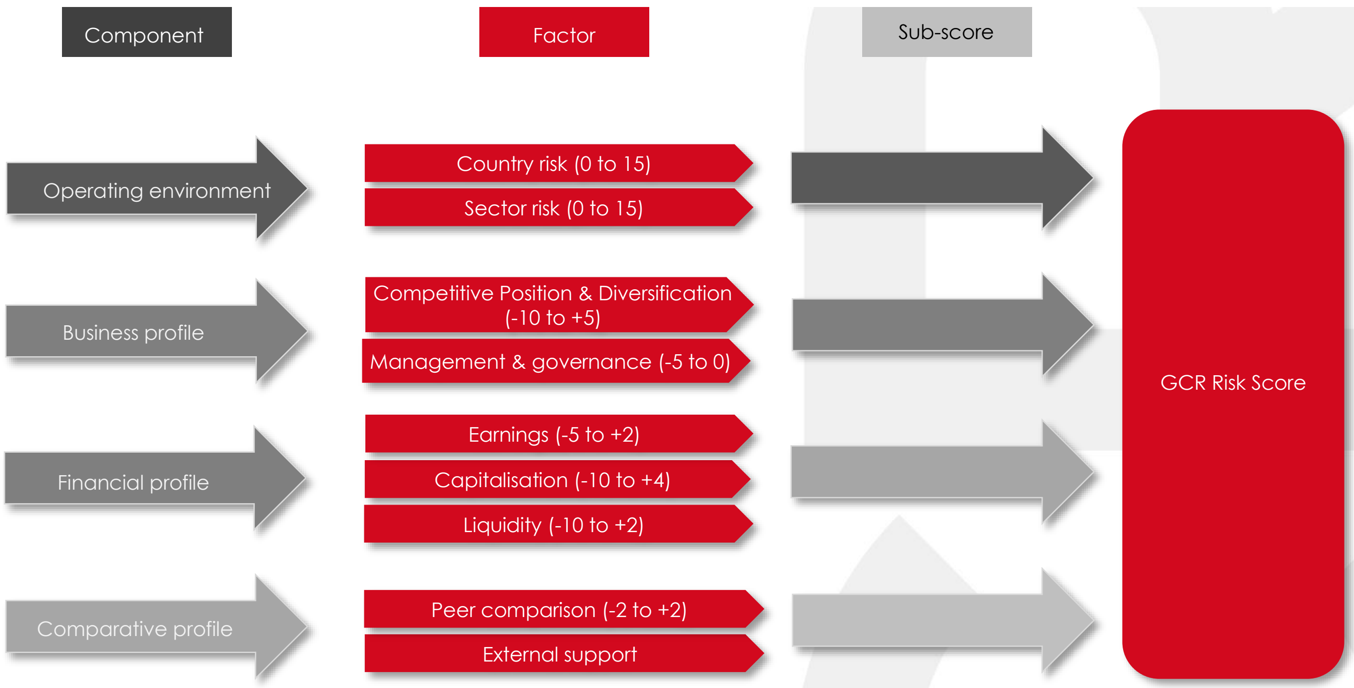
An Overview of the Ratings Framework

4. To improve the comparability and transparency of the ratings, GCR adopted a framework (see below) with publicly available scoring for the components and factors in 2019. 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.

5. The GCR Ratings Framework centres 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.

6. Note that the scores may not just be whole numbers. GCR will adopt the 0,25, 0,5, 0,75 scorings to differentiate.

Figure 1: GCR Ratings Framework Diagram for Rating Companies



Component 1: Operating Environment

(0 to 30: 30 best)

7. 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. 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
- World Economic Forum Competitive Index

Factor B: Sector Risk (0 to 15)
- Regulatory Framework
- Insurance Penetration
- Insurance Sector Structure
- Industry Earnings and Asset Risk

8. Furthermore, GCR is cognizant of the operating environment factors when scoring the traditional insurance fundamentals, i.e. the scores are analysed through the lens of the insurer's operating environment. As a result, factors such as earnings and competitive position for each insurer are scored against the most relevant domestic, regional, or global (or similar market) peers.

Component 1, Factor A: Country Risk Score

(0 to 15: 15 best)

9. 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 the GCR Ratings Framework. See the global country risk criteria published here.

10. 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 in such cases.

11. Adjustments can also be made if the insurer holds investment assets outside its primary market or if counterparty risk within a specific market is different from the assumed country risk.

Component 1, Factor B: Insurance Sector Risk Score

(0 TO 15: 15 BEST)

12. The Insurance sector risk score is derived from 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.

13. 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. Overall negative scores are not applicable because companies would not operate in countries or sectors that are wholly punitive.

14. When calculating sector risk, we will typically blend in the same manner as country risk. However, if the entity is exposed to one jurisdiction from a regulatory oversight perspective, we may weight that sector higher than the otherwise accorded score.

15. Life, Non-Life and Medical Schemes may each have a separate Sector Risk Score where distinct industries can be identified, and information is available. Where markets are dominated by composite licenses, undifferentiated regulation and/or there is little information available GCR will typically assign a generic risk score for 'insurance' and make a difference in the competitive positioning.

16. The sector risk analysis has been simplified into the following major factors:

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 which 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. High regulatory barriers to entry could also adjust the score if we consider it to be proactive or detrimental to the industry.

18. **Insurance penetration:** Measured by industry gross written premium ("GWP") as a proportion of GDP or preferably GWP per capita. The measure indicates insurance utilisation within a specific jurisdiction. 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. We may also make positive adjustments for rapid (but sustainable) premium growth, for the context of the market.

19. **Industry sector structure**. 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. Within this score, we will also look at operational barriers to entry. Typically, we will view high barriers to entry to be a positive element for the industry score if the sector is profitable and well managed.

20. **Industry earnings and asset risk:** Industry earnings risk primarily looks at the profitability of the market against economic growth and the asset risk taken by the industry. Our primary measure of profitability will be the underwriting margins (return on revenues for life business) /results achieved by the industry. 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. Secondly, we will look at the ultimate profitability of the sector, but only after adjusting for growth and inflation, and exploring the asset risk taken on by the sector to achieve returns. Sectors that over rely on unsuitably high market risk or fixed asset allocations for return will typically be viewed negatively. Whereas sectors with liquid and reliable investment incomes would be viewed positively. Within this score, we may also make adjustments for financial sector risk because financial institutions (particularly banks) represent the key source of insurers' liquidity and a key mechanism for transfer of premiums.

21. 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.

Component 2: Business Profile

(-15 TO 5: 5 BEST)

22. 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 versus the most relevant domestic, regional, or international peer group. This includes examining the competitiveness, diversification, and revenue stability of an insurance company or group, against the risk and complexity of operations, and quality of management/governance relative to peers operating in the same or similar markets.

Business profile

Factor A: Competitive position(-10 to +5)
- Market share & Franchise Strength
- Branding & Market Status
- Diversification/ Concentrations
- Strategy and business model
- Reinsurance Dependence
- Revenue scale and stability

Factor B: Management & governance (-5 to 0)

Component 2, Factor A: Competitive Position & Diversification

(-10 TO +5: 5 BEST)

23. 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). Over an intermediate to long term horizon, highly competitive entities would be expected to sustain earnings strength, while defending their market position.

24. Competitive position is the first entity specific score based on a scale, from 'weak' (-10) to 'strong' (+5) assessing the following factors:

25. **Market Share & franchise strength:** An insurer's market share is indicative of (1) 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.

26. Market share is analysed at both a general industry level (differentiating between Life, Non-Life and Medical where appropriate), as well as a specialist level (should a particular insurer's corporate strategy primarily target a distinct industry sub-segment).

27. **Branding and market status:** Entities that benefit from specific branding or market status strengths, 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 global or regional competitive strengths are included in this adjustment. We could also adjust negatively if reputation risk is high.

28. **Diversification/Concentrations:** This factor is assessed in terms of lines of business, geographic diversification, and policyholder diversification and granularity, and may also consider underlying risk exposures. GCR analyses diversification between lines of business on both gross and net premium bases,

as well as associated product risk, with an ultimate focus on the profitability of the various lines. The assessment may also consider diversification into different sub-segments within the broader product lines, as well as levels of differentiation between product offerings/distribution channels. Benefits of cross-sectoral diversification are also factored in for groups. The analysis of the line of business diversification is both quantitative and qualitative, and can be viewed against the jurisdictions it operates in.

29. 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). Concentrations are typically viewed negatively, especially in the context of significant single name counterparty risks. Although once again, this is viewed in the context of the insurer's operating environment.

30. **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. Entities exposed to higher than average product risk, compared to sector peers, could have a negative adjustment made if not captured in earnings or capitalisation.

31. **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, especially if gross performance is weak/weakening.

32. **Revenue scale and stability**. The assessment considers revenue consistency for the insurer, concentrating on the absolute scale 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 their capacity 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.

Table 1: Competitive position & Diversification		
Score description	Score	Typical characteristics
Highest	4 to 5	Internationally large and diverse insurance group, with excellent franchise and strong/well established business lines, premium and geographic diversification. No material reinsurance dependence and excellent revenue stability.
High	2 to 3	Top tier regional or domestic insurer/group, with a strong franchise and well stablished business line and premium diversification. No material reinsurance dependence and good revenue stability.
Intermediate	-1 to 1	Within the mid-range of the domestic or regional peer group or operates within a niche that provides tangible competitive advantage (either specialisation, product, or distribution). Limited dependence on reinsurance and revenue stability within market norms.
Low	-2 to -4	Smaller players within the industry that don't operate within a specialised or tangible niche or a larger player with material dependence on reinsurance to maintain market share. Revenues may show some volatility.
Lowest	-5 to -10	Lower/weak or failing insurance companies.

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Component 2, Factor C: Management & Governance

(-5 TO 0: 0 BEST)

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

Component 3: Financial Profile

(-25 TO 8: 8 BEST)

Financial profile
Factor A: Earnings (-5 to +2)
• Insurance Earnings
• Overall Profitability
Factor B: Capitalisation (-10 to +4)
• Risk based capitalisation
Factor C: Liquidity (-10 to +2)
• Liquidity ratio
• Operational cash coverage

34. 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.

35. All financial factors are assessed using a mixture of historic data (where available) and 2-year forward looking financial projections. This is accompanied by investigating management's financial assumptions against their stated strategic objectives, targeted business mix, asset allocation policy and 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).

Component 3, Factor A: Earnings

(-5 TO +2: 2 BEST)

36. GCR views earnings as the primary source of internal capital generation and belies the ultimate sustainability of an insurer's business model. As a result, GCR's analysis focuses on the quality, durability and diversity of an insurer's earnings and its control over operating costs/financial costs over a 2 year forward looking period (using historical periods as a guide). To derive the score, GCR will examine the component parts of earnings and the ultimate profitability of an insurance company in the context of its operating environment and against its most relevant peer group. The earnings score ranges from 'very weak' (-5) to 'very strong' (+2).

37. Due to the significant difference in the operations of life and non-life insurance companies, we place our analytical emphasis on different ratios and qualitative matters.

38. For non-life insurers, GCR typically starts the analysis of profitability by examining the components of and ultimate combined ratio (expressed as %). This ratio is calculated by adding the loss ratio and total expense ratio together or by taking the sum of incurred losses from the premium book and total expenses (expenses associated with acquiring, underwriting, and servicing premiums) of the insurance company and then dividing them by the net earned premium. Either way, the combined ratio shows how profitable a non-life insurer is before potentially more volatile investment returns. If the combined ratio is above 1, or 100%, the insurance company is unprofitable and may be in poor financial health because it is paying out more in claims and expenses than it is receiving in premiums.

39. Subsequently, as a secondary consideration, GCR examines the investment income ratio (investment income/ net earned premiums or invested assets). The investment income ratio compares the income that an insurance company brings in from its investment activities rather than its operations. We believe this is a secondary source of income, however it can drive overall profitability in some markets and sometimes add stability to net profitability if the investments are low risk. As a result, we will analyse the type of investments

and the quality of the returns when assessing this factor. Broadly, we would see interest bearing returns as the most predictable, followed by equity and then real estate. GCR will typically haircut or neutralise unrealised gains in the forecasting of future earnings.

40. Lastly, in order to continue differentiation, we will look at the overall internal capital generation ability of the insurer through a simple return on assets ratio.

41. For life insurers, GCR will predominantly focus on overall return on assets/revenues as well as the growth of premium against domestic/regional peers. Where there is data available, we may supplement these figures with embedded value returns. Qualitatively, GCR will focus on the quality and sustainability of premium growth and the product risk of the life insurer versus domestic/regional peers. GCR will also examine exposure to policyholder lapses and surrenders which may result in application of negative adjustments to the earnings score.

42. Groups and composite insurance companies normally combine non-life and life operations and in certain cases other non-insurance operations. Where available, GCR may take a segregated approach to the non-life and life operations using relevant sections of the earnings component assessment to measure relative performance. Assessments on the balance of performance on a segregated basis will also be compared to peers. The assessment may be complemented with the composite business's return on assets/revenue as well as growth of premium against domestic/regional peer groups to capture any benefits to earnings arising from the level of diversification into life, non-life, and non-insurance operations.

Table 2: Earnings

Description	Score	Typical characteristics
Highest	2	Consistent long-term earnings out-performer within its given market (geographically and by business line) and immediate peer group. Earnings are driven by strong underwriting and the insurer would record a profit with a significant reduction in investment income. However, earnings continue to be supported by stable but low risk investment income.
High	1	Earnings compare well within its given market/peer group over a period of a few years. Earnings are driven by stable above average underwritingwhich provides a long-term sustainable base of internal capital generation or investment income is stable and low risk.
Intermediate	0	Earnings are broadly within the average for the insurer's jurisdiction(s) and business line mix.
Low	>-2 to <-1	The insurer's earnings, to a greater or lesser extent, underperforms domestic or regional peers, or overall profitability is reliant on less stable investment income. As the stability or quality of the investment income reduces so will the score.
Lowest	<-3	Overall loss making entities over the medium or long-term. Typically, claims or management expenses are out of control, or investment losses have materially hit the insurer for a couple of years, forcing an overall loss position for the insurer.

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Component 3, Factor B: Capitalisation

(-10 to +4: 4 best)

43. 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.

44. The capitalisation score ranges from 'very weak' (-10) to 'very strong' (+4). The capitalisation score centres on an assessment of risk-based capital adequacy, followed by adjustments for company specific characteristics.

45. **Risk based capitalisation**. GCR incorporates a risk-based solvency approach for the initial scoring of 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.

46. The core risk-based capital measure is GCR's Capital Adequacy Ratio ('GCR CAR'). Capital reflects shareholders' funds, plus qualifying capital instruments (see paragraph 49.b.) minus intangibles, deferred tax assets (unless expected to unwind quickly over the short term) and deferred acquisition costs. Long-term equity investments in regulated non-consolidated financial companies and shortfalls in regulatory capital within the group are typically excluded. Guaranteed capital from a shareholder may be included in capital, while expected dividends are typically extracted. We may exclude related party receivables/loans from the capital if we consider them to be high risk.

47. **Hybrid capital.** GCR may include capital instruments within its capital assessment, with the equity content (impact on the score) dependent on the characteristics of the specific instrument. Typically, we will include 100% of long-term perpetual instruments that demonstrate clear write down or convertibility (assuming the entity will remain a going-concern) characteristics, which are approved for capital equivalence by the local regulator, up to 50% of total nominal GCR capital. Furthermore, we would typically include 100% of instruments that have the ability to defer coupons, are classified as Tier 2 instruments and have at least 5-year residual maturity, up to 25% of GCR nominal capital. If the residual maturity reduces to below 5 years, we will likely haircut the notes by 20% per annum for the remaining maturity. Additionally, from time to time, GCR may include elements of quasi permanent group or government funding which could be converted to capital, if we consider the incentives to be appropriate. Regardless, at all times, GCR nominal capital, must be made up of at least 50% tier one core equity, retained earnings and reserves. We will typically also exclude insurers from achieving the highest capital scores if they are reliant on hybrid or parent capital.

48. Risk charges are applied to underwriting risk (by line of business), market risk (by asset type and operational risk (which may be adjusted for operating environment risk exposure).

49. Risk components cover, but not exclusively:

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, as well as potential credit risk. Asset haircuts determine the potential impact on capital, with aggressive investment positions and high exposure to fixed property placing increasing strain on capital. The assessment considers credit risk of counterparties, pertaining primarily to foreign currency government bonds, corporate bonds, unsecured mortgages and loans, bank deposits > 1 year and reinsurance receivables. Risk charges are based on counterparty credit quality and maturity where applicable. We may apply positive or negative adjustments to the market risk charges to account for the depth and dynamics in the insurer's home market, or if we see exceptionally higher or lower correlations.

c. **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 may take into account variations in operating environment exposure.

50. **Statutory solvency risk**. GCR can use the regulatory/statutory solvency ratios to either positively or negatively adjust the initial capital assessment. GCR will only positively adjust when the insurer reports in and is regulated within the equivalent of the international Solvency-II regime and we see significant headroom above minimum solvency levels. GCR may apply negative adjustments for statutory risk after applying the risk-based capitalisation metric. 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.

51. Adjustments to the initial capital score 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 but relative to the operating environment) 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 or if there is high exposure to related party investments.

b. **Capital & broader Enterprise Risk 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. Insurers will not be applicable for the 'highest' assessment, if they don't have enterprise risk management, capital management and pricing tools that compare well to the globally most advanced insurers.

Table 3: Capitalisation		
Score description	Score	Typical characteristics
Highest	3 or 4	Extremely strong risk adjusted capitalisation, with very high levels of capital redundancy, often in excess of 2.5x GCR CAR. To achieve the highest score, capital scale and quality must be very high and capital management should be strong to very strong (using regulated risk-based solvency ratios and international best practice enterprise risk management), while the insurer may also benefit from financial flexibility.
High	2	Strong to very strong risk adjusted capitalisation, typically between 1.5x and 2.5x GCR CAR. Capital scale and quality is high, whilst capital management is considered to be proactive and above market averages or in-line with international best practice.
Intermediate	-1 to 1	Intermediate risk adjusted capitalisation, typically between 1x and 1.5x GCR CAR. Capital scale and quality is intermediate to high. Capital management is in line with relevant market practice.
Low	-4 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	-5 to -10	Very weak risk adjusted capitalisation, well below 1x GCR CAR, and likely remaining below 1x over the medium term or without external capital support. Capital scale and quality is low. Capital management is very weak. Statutory solvency risk likely applies or at the weaker scores the insurer has been declared insolvent by the regulator.

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52. GCR may make further adjustments to the capitalisation score based on the following factors:

53. **Reserving risk.** The company's internal reserving approach and the extent to which reserving adequacy is independently assessed, as well as the frequency of these reviews, are considered. Inadequate or high reserving risk (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.

54. **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. GCR may also include elements of ongoing parent or government support in this subfactor.

55. **Leverage**. Insurers and insurance groups with high leverage in their funding structures may be adjusted downwards. GCR Leverage Ratio is calculated as the factor of insurer or group debt (incl. hybrids) to total capital and debt (incl. hybrids).

Table 4: GCR insurance leverage ratio

Assessment		Insurance Leverage Ratio
Intermediate	0	>30%
Low	-1 or -2	>50%
Lowest	-3 or weaker	>75%

56. **Aged premium receivables.** If the entity has not covered aged premium receivables, typically aged over 180 days, with appropriate reserves, we may deduct the expected provisioning shortfall from capital.

57. **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 pay-out 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.

58. **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, whilst there could be regulatory, accounting or tax impediments to such intra-group capital mobility, and consequently capitalisation may be negatively adjusted.

59. **Reinsurance risk**. GCR may make negative adjustments should net retention levels be very low, as it may reduce long term financial flexibility. 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.

60. **Catastrophe risk.** We could make a negative adjustment if there is exposure to high severity event losses which could result 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, considering data quality, exposure monitoring techniques and process controls.

61. **Start-up insurers, and insurers with turnaround strategies**. Capitalisation for a start-up or newly established entity is viewed on a long-term horizon. Entities will typically be heavily capitalised upfront, while being exposed to limited risk. However, 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 adjustment 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 also be true for entities with very poor earnings track records.

Component 3, Factor C: Liquidity

(-10 TO +2: 2 BEST)

62. 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 robust liquidity positions. Scores from -4 and below reflect a particularly vulnerable liquidity position.

63. GCR's analysis of an insurer's liquidity is based on the stressed coverage of projected 12 month liquidity requirements by available liquid assets after applying stresses for potential fire sale of investment assets and assumed delayed premium collection.

64. The sources of liquidity include cash and other financial assets, with haircuts applied according to the liquidity of the various assets, which may be adjusted to account for the depth and dynamics in the insurer's home market. Broadly GCR views cash and near cash items (such as short-term bank or money market placements), sovereign bonds and unit trusts as the most liquid assets, followed by high quality bonds, longer-term bank placements, listed equities and more rarely unlisted equities, respectively.

65. Premium receivables that are aged below 180 days are also considered to be a source of liquidity, although haircuts are applied to respective buckets of non-current receivables. 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. Encumbered assets are not included. Potential cash inflows can be considered on a limited basis if there is a strong track record of positive cash flow generation from sustainable sources of income, or if there are other assets that are of a reliable cash generative nature.

66. The liquidity demands reflect the net amount of technical reserve requirements, usually looking at those that fall due within 12 months for life entities or non-life entities with longer-tail risk. Expected operational cash requirements (typically including trade and reinsurance payables and tax) and debt repayments are included as an expected liquidity need, over the same time period. We may also include potential withdrawals/lapses or surrenders of life products (a stressed value based on observed lapses), uncovered 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.

    a. **Constraints on the fungibility** of liquidity within a group may also have a negative impact.

    b. **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. Furthermore, we will typically not accord the highest score if we consider the insurer to run a significant mismatch because the insurer may be temporarily improving short-term liquidity at the expense of longer-term profitability/ solvency.

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

d. **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.

e. **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 senior 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	>2x coverage of liquidity needs over a 12-month period and very strong asset-liability management.
Moderately High	1	1.5x to 2x coverage of liquidity needs over a 12-month period.
High	0	1x to 1.5x coverage of liquidity needs over a 12-month period.
Intermediate	-1	0.75x to 1x coverage of liquidity needs over a 12-month period.
Low to very low	-2 to -4	0.5x to 0.75x coverage of liquidity needs over a 12-month period.
Lowest	<-5	<0.5x coverage of liquidity needs over a 12-month period.

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 ON 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)

67. The last component considers comparatives, factoring in ongoing group or extraordinary sovereign support, and peer comparison considerations.

Component 4, Factor A: Group Support

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

Component 4, Factor B: Government Support

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

Component 4, Factor C: Peer Analysis

(-2 TO +2: 2 BEST)

70. 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

71. 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

72. 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:

73. 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.

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

75. **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.

76. **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.

77. **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

78. 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.

Appendix 1: Additional Considerations for Cell Captive Insurers

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

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

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

82. **Capitalisation**. Assessment of the consolidated capitalisation of the cell captive usually looks at the GCR CAR as well as the solvency of each of the third party cells, 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). A counterparty risk charge is typically applied to the shortfall in third party cells' capital to reflect the associated credit risk, and we may strip capital surpluses from the consolidated balance it we think there is a likelihood of this being distributed to cell owners. The cells' level of capitalisation is compared to minimum regulatory capital requirements and the cell captive's internal capital benchmarks.

83. **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 may also be assessed, given that this has an impact on the cell captive's overall investment allocation strategy. The liquidity calculation may be stressed for potential distribution of surplus capital to cell owners.

Appendix 2: Additional Considerations for South African Medical Schemes

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

85. 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.

86. 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.

87. **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.

88. **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.

89. **Membership diversification**. Membership diversification pertains primarily to sectoral and employer group diversification, in so far as they impact 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.

90. 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.

91. **Regulatory risks.** Regulatory actions against a scheme could result in negative adjustments, as these could directly or indirectly hinder the entity's operations, leading at worst to the liquidation of the scheme.

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.

92. South African medical schemes' net healthcare margin and net surplus or deficit are used in place of the underwriting margin and return on revenue respectively. As with all GCR approaches, the emphasis is placed on forward looking measures although we take note of the entities' track-record.

93. **Reserves' management strategy:** Schemes with high reserve levels may deliberately utilise them for the benefit of members, by for example, applying very competitive contribution increases, enriching options' benefits, or encouraging benefits utilisation. Such strategies may result in a rapid depletion of reserves, which could in turn limit the loss absorption capacity of the scheme. Therefore, GCR may apply a positive or negative adjustment depending on expected solvency of the schemes. Further negative adjustments may follow if the scheme is not able to manage reserves in line with minimum regulatory requirements.

94. The liquidity assessment utilises gross cash coverage of average monthly claims and may use a cash flow-based metric in place of the GCR liquidity ratio. 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.