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S&P Global
China Ratings

S&P Global (China) Ratings-Insurance Methodology

December 22, 2023

SCOPE AND OVERVIEW

This S&P Global (China) Ratings methodology generally applies to ratings on insurance companies. It may also apply to the analysis of other issuers that have similar characteristics where we deem appropriate.

This methodology describes our approach to determining the stand-alone credit profile (SACP) and issuer credit rating (ICR) for an insurance company or a similar institution, including a consideration of the potential extraordinary support from the insurer's parent group or government.

The methodology considers the operating environment, the macro factors of which we identify as industry risk. The methodology also considers other entity-specific factors for insurers, which include competitive position, capital and earnings, risk position, financial flexibility, management and governance, and liquidity.

The assessments of the SACP may consider:

- Industry risk.
- Competitive position.
- Capital and earnings.
- Risk position.
- Financial flexibility.
- Management and governance.
- Liquidity.
- Holistic adjustment.

We may also consider the potential external support that an insurer may receive, which could include ongoing and/or extraordinary support from the government or group. We may incorporate other factors into our assessment for insurers in start-up or run-off.

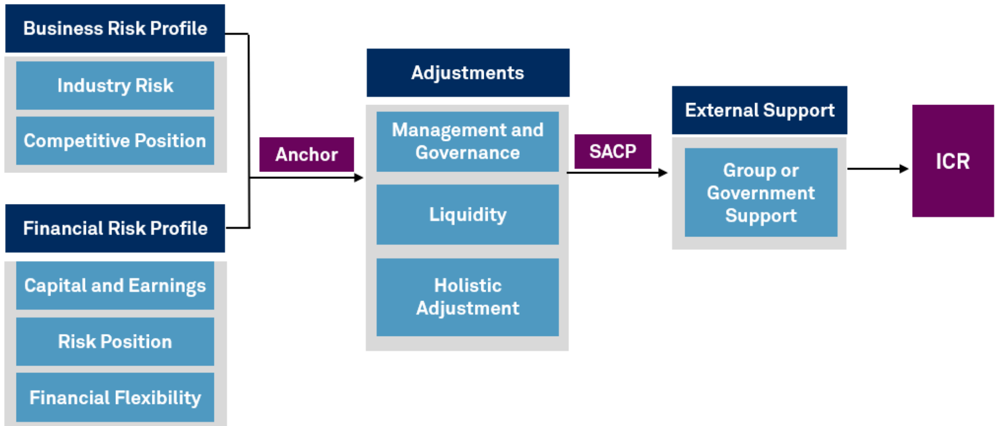
We may assign other types of ratings to insurers depending on the nature of the obligation being considered. The ICR may be raised or lowered where we deem appropriate.

When assessing the creditworthiness of an insurer or a similar institution, we typically analyze its business risk profile and financial risk profile, the results of which are considered in aggregate to arrive at the anchor. We then determine the insurer's SACP based on the anchor and assessment of other factors, such as liquidity, and management and governance. Where we believe the insurer or similar institution may benefit from external support, which may include group support or government support, we will also include these factors into our consideration for determining the ICR.

Where we believe external factors may influence the ICR or issue rating, we would also refer to other relevant S&P Global (China) Ratings methodologies, e.g. General Considerations on Rating Modifiers and Relative Ranking.

Chart 1

Insurance Ratings Framework



Source: S&P Global (China) Ratings.

METHODOLOGY: SETTING THE ISSUER CREDIT RATING

Determining the Rating: Key Steps

This methodology typically considers the following:

- The business risk profile (BRP) is typically derived from the combination of the assessments for industry risk and the insurer's competitive position.
- The financial risk profile (FRP) is typically derived from the combination of the assessments for capital and earnings, risk position, and financial flexibility.
- The anchor is typically derived from the combination of the BRP and the FRP.
- SACP is typically derived from considering both the anchor and other assessments such as management and governance, liquidity, and holistic adjustment.
- The ICR is determined by combining the SACP and the evaluation of potential group or government support.
- The ICR may be adjusted higher or lower where we deem appropriate.

1. Business Risk Profile

The BRP considers the risk inherent in the insurer's operations and therefore the potential sustainable return to be derived from those operations. Insurers with relatively high- or low-risk product offerings, or target markets with unfavorable or favorable competitive dynamics, can be assessed as having weaker or stronger BRP. To determine the SACP of a group member, we typically assess BRP from a stand-alone perspective. We assess BRP on a scale from “1” (very low business risk) to “6” (very high business risk). BRP typically reflects the risks inherent in the insurer’s business operations and the potential returns generated from those operations.

We derive an insurer’s BRP by combining the industry risk and competitive position. The table below illustrates the typical approach we apply to our BRP assessment after considering industry risk and competitive position in aggregate. For example, the combination of industry risk of “3” and competitive position of “2” would arrive at the insurer’s BRP at “2”.

Table 1

Business Risk Profile Assessment						
	Industry Risk					
Competitive Position	1	2	3	4	5	6
1	1	1	1	2	3	5
2	1	2	2	3	4	5
3	2	3	3	3	4	6
4	3	4	4	4	5	6
5	4	5	5	5	5	6
6	5	6	6	6	6	6

Source: S&P Global (China) Ratings.

1.1 Industry Risk

The industry risk analysis typically considers the risks faced by insurers operating in specific industries, e.g. life insurance or property & casualty (P&C) insurance. We may consider the following factors:

- Economic risk.
- Systemic risk.
- Return on equity.
- Product risk.
- Barriers to entry.
- Market growth prospects.

We assess the industry risk on a scale from “1” (very low industry risk) to “6” (very high industry risk).

Table 2

Industry Risk Assessment	
Score	Typical Features
1	Very strong prospective profitability with extremely low potential impact of competition and product risk, and very supportive regulatory environment.
2	Strong prospective profitability with low potential impact of competition and product risk, and supportive regulatory environment.
3	Moderate prospective profitability with medium potential impact of competition and product risk, and comparatively supportive regulatory environment.
4	Comparatively weak prospective profitability with comparatively high potential impact of competition and product risk.
5	Weak prospective profitability with high potential impact of competition and product risk.
6	Very weak prospective profitability with potentially material impact of competition and product risk, or unsupportive regulatory environment.

Source: S&P Global (China) Ratings.

1.2 Competitive Position

Competitive position assessment may include the consideration of some or all of the following factors (or other factors where appropriate):

- Competitive advantages, which may include market position, brand name recognition and reputation, and strength of distribution.
- Operating performance.
- Business diversity.

When assessing an insurer’s competitive position, we typically consider its market position, brand name recognition and reputation, strength of distribution, business diversity, and operating performance. We assess an insurer’s competitive position on a scale from “1” (very strong competitive position) to “6” (very weak competitive position).

Table 3

Competitive Position Assessment	
Score	**Typical Features**
1	An insurer's very solid competitive strengths make it highly resilient to adverse operating conditions. It has no material competitive weaknesses and substantial business diversity.
2	An insurer's solid competitive strengths make it resilient to adverse operating conditions. It has no or very few material competitive weaknesses and broad business diversity.
3	An insurer's competitive strengths outweigh its weaknesses and make it somewhat resilient to adverse operating conditions.
4	An insurer's competitive strengths and weaknesses are balanced and make it somewhat vulnerable to adverse operating conditions.
5	An insurer's competitive weaknesses somewhat outweigh its strengths and make it vulnerable to adverse operating conditions.
6	An insurer's competitive weaknesses outweigh its strengths and make it highly vulnerable to adverse operating conditions.

Source: S&P Global (China) Ratings.

Typically, we may first assess an insurer's market position before incorporating other supplementary indicators into our analysis, and determine whether further adjustment to the assessment outcome is needed according to case-by-case consideration.

Factors that may have a positive impact on competitive position include:

- Larger market share than peers.
- Business advantages relative to peers thanks to solid brand name recognition and reputation.
- Consistently high retention, e.g. maintaining high policy persistency rate.
- More than half of premiums contributed by controlled distribution channels.
- More extensive business lines and/or greater geographic diversity compared to peers, allowing the insurer to maintain stable revenue across different stages of an economic cycle.
- Operating performance consistently and materially outperforms peers.

Factors that may have a negative impact on competitive position include:

- Smaller market share than peers.
- Poor brand name recognition and reputation, resulting in material business disadvantages compared to peers.
- Consistently low retention, e.g. significantly lower policy persistency rate compared to peers.
- High proportion of premiums contributed by a single insurance product type, or remarkable geographic concentration relative to peers.
- Operating performance consistently and materially underperforms peers.

2. Financial Risk Profile

We typically factor capital and earnings, risk position, and financial flexibility into our analysis of the financial risk profile.

We view the FRP as the consequence of decisions that management makes in the context of its business risk profile and its risk tolerances. These decisions include the insurer's capital adequacy and the way it is capitalized (factoring in prospective growth and retained earnings), its risk position, and financial flexibility.

The starting point for the evaluating an insurer's FRP is the analysis of capital and earnings. We then adjust this assessment for the risk position and financial flexibility assessments. After the capital and earnings score is determined, we typically make negative adjustment to our FRP assessment if the insurer's risk position is assessed at above "2". We may adjust down the FRP assessment further if its financial flexibility is assessed as "moderately negative" or "negative".

Table 4

Financial Risk Profile Assessment	
Capital and earnings assessment	"1" to "6"
Risk position	
1/Low	-1
2/Moderately low	0
3/Moderately high	+1

4/High	+2
5/Very high	+3 or more
Financial flexibility	
Neutral	0
Moderately negative	+1
Negative	+2 or more
Financial risk profile	**Capital and earnings + Risk position + Financial flexibility**
For example, an insurer's capital and earnings of "3", combined with a risk position of "3/moderately high" and a financial flexibility of "neutral", could lead to an FRP assessment of "4" (risk position score of "1" and financial flexibility score of "0" are added to capital and earnings score of "3"). The cumulative impact of risk position and financial flexibility adjustments does not improve the FRP assessment below '1' or weaken the assessment above '6'.	

Source: S&P Global (China) Ratings.

2.1 Capital and Earnings

In assessing FRP, we typically analyze capital and earnings, including regulatory capital requirements. Capital and earnings measure an insurer's ability to absorb losses by assessing capital adequacy prospectively, using quantitative and qualitative measures. The factors we may consider in our capital adequacy assessment include available capital resources and capital requirements.

We typically conduct forward-looking analysis on capital adequacy to assess the insurer's loss-absorbing capacity on a scale from "1" (very strong capital and earnings) to "6" (very weak capital and earnings).

Table 5

Capital and Earnings Assessment

Score	Typical Features
1	Projected capital adequacy is far above the minimum regulatory requirements.
2	Projected capital adequacy is above the minimum regulatory requirements.
3	Projected capital adequacy is slightly above the minimum regulatory requirements and able to fully meet such requirement under stress.
4	Projected capital adequacy is able to meet minimum regulatory requirements under a base case but at the risk of breaching such requirement under stress.
5	Projected capital adequacy is able to meet minimum regulatory requirements under a base case but at moderately high risk of breaching such requirement under stress.
6	Projected capital adequacy is at high risk of breaching minimum regulatory requirements under a base case.

Source: S&P Global (China) Ratings.

In our capital adequacy assessment, we base our judgement mainly on the insurer's projected solvency capacity, which we view as the most critical factor to assess, before taking other factors into consideration. Typically, we may analyze the core solvency ratio and comprehensive solvency ratio. We generally give more weight to core solvency ratio as high-quality capital is assessed in this metric. The analysis of comprehensive solvency ratio typically considers whether an insurer's projected capital adequacy is able to meet minimum regulatory requirements. The failure to meet such requirements may lead to a constraint on the insurer's business expansion.

We may also evaluate the insurers' profitability as a supplementary metric for capital adequacy assessment, based on which we form a view on the insurer's endogenous capital-generating capacity. Our assessment is forward-looking.

2.2 Risk Position

Risk position assessment considers factors that the capital and earnings analysis does not incorporate or specific factors that it captures but could make an insurer's capital somewhat volatile. This could include factors such as investment portfolio quality, leverage, investment portfolio diversification, foreign exchange risk exposure, and risk control.

We assess the risk position on a scale from “1” to “5”, where “1” indicates low risk and “5” very high risk.

Table 6

Risk Position Assessment		
Score	**Descriptor**	**Typical Features**
1	Low	The insurer's prospective capital and earnings have low volatility risk; there are high capital or earnings buffers that are likely to limit the impact of any potential adverse developments; there are no material risks that are not incorporated in the capital analysis; and the insurer has no material risk concentrations.
2	Moderately low	The insurer's prospective capital and earnings have moderately low volatility risk, there are no material risks that are not incorporated in the capital analysis, and the insurer has no material risk concentrations
3	Moderately high	The insurer's prospective capital and earnings have moderately high volatility risk, certain risks are not incorporated in the capital analysis, or risk concentrations exist and these may be material.
4	High	The insurer's prospective capital and earnings has high volatility risk or certain risks are not incorporated in the capital analysis, and material risk concentrations exist.
5	Very high	The insurer's prospective capital and earnings have very high volatility risk, or certain risks are not incorporated in the capital analysis and significant risk concentrations exist, or some risk characteristics exist that could cause severe capital stress.

Source: S&P Global (China) Ratings.

Risk management generally is the main factor to consider when we analyze the insurer’s risk position. Our assessment considers the effectiveness of risk control relative to its risk exposures, the ability to limit losses across all risk categories to a certain level, and the management on potential volatility pertaining to its risk exposures.

Factors that may have a positive impact on risk management include:

- The insurer maintains a prudent stance on risk-taking in terms of business written and asset allocation.
- Strict risk control and effective risk identification system.
- Well-diversified investment portfolio that helps sustain the operating performance at a fair level amid cyclical movements of macroeconomy and capital market volatility.
- Exposure to foreign exchange risk is limited or has been effectively hedged.
- Exposure to natural catastrophes is small or have been well reinsured or otherwise mitigated.
- Sufficient reinsurance arrangements.

Factors that may have a negative impact on risk management include:

- The insurer is aggressive on business written and asset allocation.
- Relaxed risk control or poor risk identification capacity, which may result in failure to effectively manage material risks in a timely manner.
- Significant issuer or industry concentration for asset allocation.
- Substantial exposure to foreign exchange risk that’s not been hedged.
- Insufficient reinsurance arrangements.

2.3 Financial Flexibility

Our analysis of financial flexibility may consider the balance between an insurer's sources and uses of external capital and liquidity. This may include consideration of capital, liquidity, and financial leverage. The financial flexibility is typically assessed as “neutral”, “moderately negative” or “negative”.

We may apply quantitative measures for assessing financial flexibility. For example, we may use financial leverage ratio and fixed-charge coverage ratio to assess the insurer’s indebtedness and the ability to pay interest. We typically form a forward-looking view after taking into account the insurer’s financing plan, financial management policy and financing capacity.

3. Anchor

The anchor is typically derived from the combination of the assessments for the BRP and FRP. A BRP of “1” and FRP of “1” indicates the insurer’s extremely strong credit quality, equivalent to an SACP of “aaa”. When the insurer’s BRP and FRP are both assessed as “6”, it has very weak credit quality that is equivalent to an SACP of “b-”.

Table 7

Anchor	Financial Risk Profile					
Business Risk Profile	1	2	3	4	5	6
1	aaa	aaa/aa+	aa+	aa/aa-	a+/a	bbb+
2	aaa/aa+	aa+	aa/aa-	a+/a	a-/bbb+	bbb
3	aa	aa/aa-	a+/a	a/a-	bbb+/bbb	bbb-/bb+
4	a+	a	a/a-	bbb+/bbb	bbb-/bb+	bb/bb-
5	a-/bbb+	bbb/bbb-	bbb-	bb+/bb	bb/bb-	b+/b
6	bbb	bbb-/bb+	bb/bb-	b+	b	b-

Source: S&P Global (China) Ratings.

4. Stand-alone Credit Profile

We may adjust the preliminary anchor after considering management and governance, liquidity, and holistic adjustment to arrive at the final SACP. The SACP may be higher or lower than or equal to the anchor.

The SACP may reflect some significantly positive factors that are not fully captured in our assessments of BRP and FRP, leading to the insurer's SACP being higher than its anchor. Where the insurer has very weak liquidity position and/or maintains poor management and governance, which may negatively impact its business or financial stability, its SACP could be lower than the anchor.

Table 8

Notching Guidance for SACP Assessment	
Anchor	"aaa" to "b-"
Management and Governance	
- Neutral	0
- Moderately negative	-1
- Negative	-2 or more
Liquidity	
- 1/Strong	0
- 2/Adequate	0
- 3/Less than adequate	-1
- 4/Weak	-2 or more
Holistic Adjustment	Upward/downward or no notching adjustment
SACP	Anchor + Management and Governance + Liquidity + Holistic Adjustment

Source: S&P Global (China) Ratings.

4.1 Management and Governance

The analysis of management and governance typically addresses factors such as management's strategic competence, operational efficiency, financial management, and governance practices, and how these factors shape the insurer's competitiveness in the marketplace, the strength of its financial risk management, and the robustness of its governance.

We usually assess an insurer's management and governance as "neutral", "moderately negative" and "negative".

Table 9

Management and Governance Assessment	
Conclusion	**Typical Features**
Neutral	When the insurer is not assessed as "moderately negative" or "negative".
Moderately negative	The insurer displays material shortcomings in its management and governance.
Negative	The shortcomings in management and governance are so severe that the insurer's capacity in implementing strategy or managing risks may be weakened, posing a severe risk to the insurer.

Source: S&P Global (China) Ratings.

4.2 Liquidity

The liquidity analysis typically considers an insurer's ability to meet its liquidity needs in normal and adverse market and economic conditions. We typically incorporate the following factors into our liquidity assessment:

- Coverage of the insurer's confidence-sensitive liabilities.
- The possibility that the insurer would need to post additional collateral.
- The implications of restrictive covenants and ratings triggers (if any) in the insurer's financial arrangements.
- The ability to convert assets into cash to meet the demand for its cash by policyholders and creditors.

Liquidity is measured on a scale of "1" to "4", where "1" demonstrates strong liquidity position and "4" weak liquidity position.

Table 10

Liquidity Assessment		
Score	**Descriptor**	**Typical Features**
1	Strong	The liquidity ratio is favorable under stress and there are no material liquidity risks.
2	Adequate	The liquidity ratio is adequate under stress and there are no material liquidity risks.
3	Less than adequate	The liquidity ratio is unfavorable under stress and there are negative factors that materially impact liquidity.
4	Weak	There is a severe risk to the insurer's liquidity.

Source: S&P Global (China) Ratings.

4.3 Holistic Adjustment

The main purpose of holistic adjustment is to provide a comparable framework for assessing the rating factors, before arriving at the final SACP. Different holistic adjustments may be applied for different SACP rating factors, which facilitate the insurer-specific analysis. We may also conduct peer comparable analysis in this process to determine the final SACP.

5. External Support

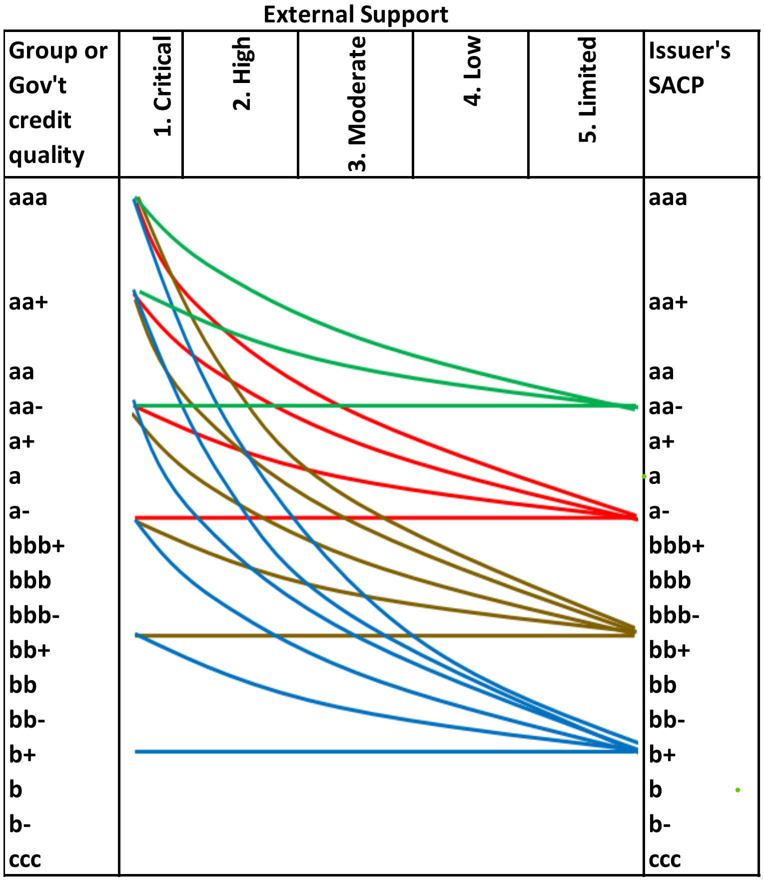
The analysis of group or government support factors the likelihood of support from a group or government into the ICR on an insurer by assessing the relationship between the parties. For example, when we believe the group or government support would enhance the creditworthiness of the insurer, we may incorporate that factor into our ICR assessment, leading to the insurer's ICR being higher than its SACP.

We arrive at an insurer's ICR through combining its SACP and support framework. The support framework determines the extent of the difference between the SACP and the ICR, if any, for group or government influence. A positive influence indicates that the insurer may receive group or government support, leading to a potential uplift to its creditworthiness, while a negative influence indicates that the insurer may see group or government interference, which may weaken its creditworthiness. In most cases, the group or government usually has stronger capital and stronger credit quality than the insurer, and thus the likelihood of the insurer receiving external support is higher.

We assess the potential external support for an insurer as "critical", "high", "moderate", "low", or "limited". As the external support increases, so does the potential for an uplift to the ICR. Each level of external support on the curve below indicates the range of rating increases that can be applied on the insurer. We typically determine the extent of uplift within the range after considering external factors in aggregate to arrive at the ultimate ICR. The ICR may not necessarily fall on the curve depending on a case-by-case assessment.

Chart 2

Support Analysis Framework



Source: S&P Global (China) Ratings.

When assessing the likelihood of external support, we typically consider the insurer's importance to the support provider, which may incorporate the consideration of the following factors: ownership relationships between the rated entity and the supporting entity; the rated entity's revenue contribution to the supporting entity; whether the supporting entity has the right to appoint senior management and board members for the rated entity; whether the rated entity plays a critical role on behalf of the government in implementing policies; the rated entity's systematic importance to the overall financial system.

6. Holding Company-Specific Adjustment

The ratings of insurer's holding companies reflect any possible difference in their creditworthiness relative to the group's operating entities, since holding companies are not directly involved in operating activities. The rating differential is mainly due to the increased credit risk at the holding company level which is caused by possible regulatory constraints to upstream financial resources and potentially different treatment under a default scenario. Holding companies are typically reliant on dividends and other distributions from the group's operating entities to meet their obligations, which causes the structural subordination.

We combine the group's SACP and external influence to arrive at the unadjusted group credit quality, which doesn't include the structural subordination factor at the holding company level. The ICR of the holding company incorporates unadjusted group credit quality and any downward notching adjustment related to structural subordination.

We may apply a downward notching adjustment from the unadjusted group credit quality on the insurance holding company to reflect the structural subordination of debts at the holding company level. We also factor in risk mitigating factors for the holding company, which may fully or partly offset the risks arising from structural subordination. In this case, credit risk differentials at the holding company level may be narrowed or even eliminated, and the final ICR of the insurance holding company may be lower than or equal to the unadjusted group credit quality.

Table 11

Rating Components of Insurance Groups and Their Holding Companies	
Rating Factor	**Description**
Group SACP	We analyze the group's SACP on a consolidated basis.
Unadjusted Group Credit Quality	After we combine group or government support to the group SACP, we arrive at the unadjusted group credit quality, which doesn't include any adjustments related to structural subordination at the holding company level.
ICR of Holding Company	The possibility of increased credit risk due to structural subordination may lead to lower ICR of the holding company compared to the unadjusted group credit quality. Therefore, the ICR of the holding company may be lower than or equal to the unadjusted group credit quality.

Source: S&P Global (China) Ratings.

ISSUE CREDIT RATING

We may refer to S&P Global (China) Ratings – General Considerations on Rating Modifiers and Relative Ranking when determining issue credit rating. Issue-level rating may be equal to or different from the ICR depending on case-by-case assessment.

OTHER CONSIDERATIONS

This methodology is not intended to be an exhaustive list of all factors we may consider in our analysis. Where appropriate, we may apply additional quantitative or qualitative considerations in our analysis to fully reflect the creditworthiness of a particular issuer, issue or security type. The rating committee may adjust the application of the methodology to reflect individual circumstances in our analysis.