

# S&P's Perspective on Insurance Ratings

Philip Chung  
Director  
Financial Services Ratings

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Asia Regional Affiliate, 25 Aug 2016

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# Agenda

- **Ratings Fundamentals**
- **S&P's Insurance Rating Methodology**
- **Ratings Snap Shot – Peer Comparison**
- **S&P's View on Asia-Pacific Insurance Industry**
- **Regulatory Update and its Implication**
- **Questions?**

# Ratings Fundamentals



# What A Credit Rating Is And What It Is Not

## What It Is

Forward-looking opinions about relative credit risk, i.e., the creditworthiness of an entity or its securities that:

- Strive to be globally comparable across sectors
  
- Incorporate views on relative likelihood of default that:
  - **Refer to the timely payment of interest and principal and,**
  - **Are applied to entities and securities**

## And What It Is Not

- Absolute measures of default probability
  
- Investment advice, a recommendation to purchase, sell or hold securities, or a comment as to market price or suitability for an investor
  
- A measure of liquidity or market value
  
- A way of defining “good” or “bad” companies, or a direct assessment of corporate governance
  
- An audit of the company or its auditors
  
- A guarantee of credit quality or of future credit risk

# What Is An Insurer Financial Strength Rating?



**An insurer financial strength rating is:**

***Our forward-looking opinion about an insurance organization's ability to pay its policies and contracts.***



[http://www.spratings.com/en\\_US/products/-/product-detail/insurer-financial-strength-rating](http://www.spratings.com/en_US/products/-/product-detail/insurer-financial-strength-rating)

# Rating Categories

## Investment Grade

**AAA** Extremely strong capacity to meet financial commitments. Highest rating

**AA** Very strong capacity to meet financial commitments

**A** Strong capacity to meet financial commitments, but somewhat susceptible to adverse economic conditions and changes in circumstances

**BBB** Adequate capacity to meet financial commitments, but more subject to adverse economic conditions

**BBB-** Considered lowest investment grade by market participants

**BB+** Considered highest speculative grade by market participants

**BB** Less vulnerable in the near term, but faces major ongoing uncertainties to adverse business, financial and economic conditions

**B** More vulnerable to adverse business, financial and economic conditions, but currently has the capacity to meet financial commitments

**CCC** Currently vulnerable and dependent on favorable business, financial and economic conditions to meet financial commitments

**CC** Currently highly vulnerable

**C** A bankruptcy petition has been filed or similar action taken, but payments of financial commitments are continued

**D** Payments default on financial commitments

Ratings from 'AA' to 'CCC' may be modified by the addition of a plus (+) or minus (-) sign to show relative standing within the major rating categories.

## Speculative Grade

# Ratings Categories Insurer Financial Strength

AAA	An insurer rated 'AAA' has <b>extremely strong</b> financial security characteristics. 'AAA' is the highest insurer financial strength rating assigned by Standard & Poor's.
AA	An insurer rated 'AA' has <b>very strong</b> financial security characteristics, differing only slightly from those rated higher.
A	An insurer rated 'A' has <b>strong</b> financial security characteristics, but is somewhat more likely to be affected by adverse business conditions than are insurers with higher ratings.
BBB	An insurer rated 'BBB' has <b>good</b> financial security characteristics, but is more likely to be affected by adverse business conditions than are higher-rated insurers.
BB; B; CCC; CC	An insurer rated 'BB' or lower is regarded as having vulnerable characteristics that may outweigh its strengths. 'BB' indicates the least degree of vulnerability within the range; 'CC' the highest.
BB	An insurer rated 'BB' has <b>marginal</b> financial security characteristics. Positive attributes exist, but adverse business conditions could lead to insufficient ability to meet financial commitments.
B	An insurer rated 'B' has <b>weak</b> financial security characteristics. Adverse business conditions will likely impair its ability to meet financial commitments.
CCC	An insurer rated 'CCC' has <b>very weak</b> financial security characteristics, and is dependent on favorable business conditions to meet financial commitments.
CC	An insurer rated 'CC' has <b>extremely weak</b> financial security characteristics and is likely not to meet some of its financial commitments.
R	An insurer rated 'R' is <b>under regulatory supervision</b> owing to its financial condition. During the pendency of the regulatory supervision, the regulators may have the power to favor one class of obligations over others or pay some obligations and not others. The rating does not apply to insurers subject only to nonfinancial actions such as market conduct violations.
NR	An insurer designated 'NR' is <b>not rated</b> , which implies no opinion about the insurer's financial security.

# How We Announce Potential Near-Term Ratings Changes

## CreditWatch

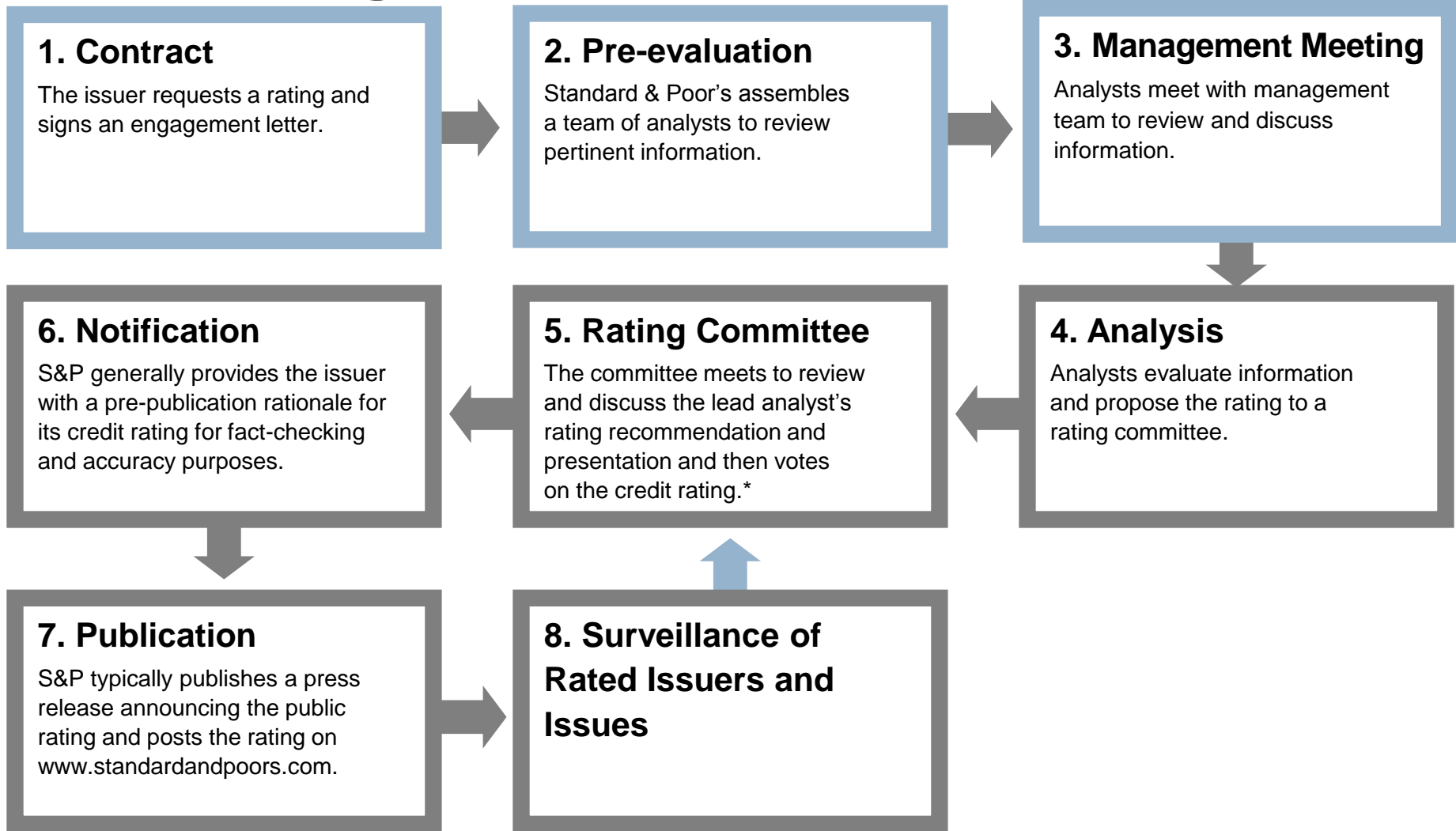
- An event or deviation from an expected trend has occurred, or may occur, that is likely to cause a rating change, **usually within 90 days**.
- Standard & Poor's believes that a specific rating has at least **a one-in-two likelihood** of being upgraded or downgraded in the near term.
- Listings could be positive, negative or developing, which signals the direction of the potential ratings change.
- Listings are **typically “resolved” within three months** following placement.

## Outlook Change

- Reflects the potential of a rating being downgraded or upgraded over the next **12 to 24 months**.
- Reflects a **one-in-three chance** that the rating could be downgraded or upgraded.
- The time frame: up to two years for investment-grade ratings, up to one year for speculative-grade ratings.
- Not an indication that a rating will be listed on CreditWatch.
- Uses a similar vocabulary to CreditWatch to signal positive, negative, or stable ratings.



# The Rating Process



\*S&P may allow for an appeal only if the issuer can provide new and significant information to support a potentially difficult rating conclusion.

**S&P's Insurance Rating  
Methodology**

# Scope of Insurance Criteria

**Scope**

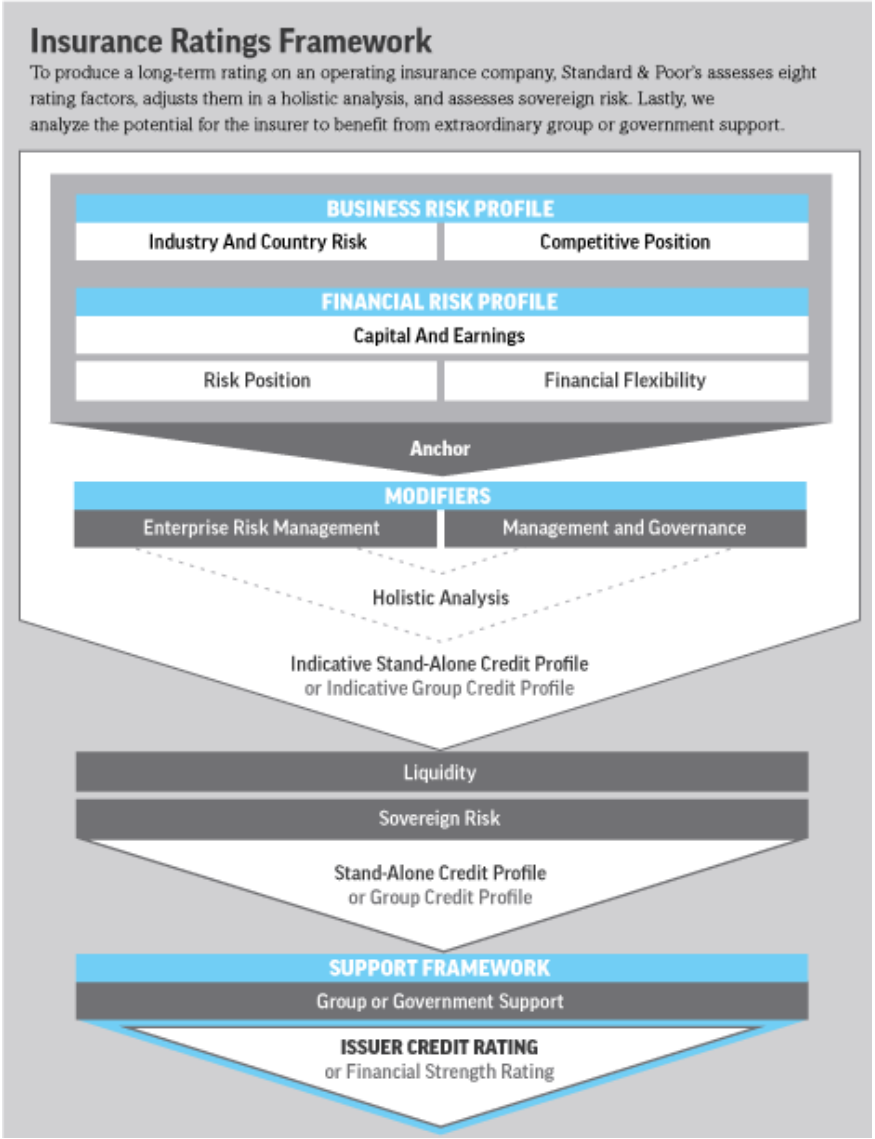
**Includes**

- Life & Health Insurers
- Property/Casualty Insurers
- Multiline Insurers
- Reinsurers
- Trade Credit Insurers
- Marine P&I Clubs
- Start-ups and Run-off situations
- PI Ratings

**Excludes**

- Bond Insurers
- Insurance Brokers
- Mortgage and Title Insurers

# Determining the Ratings – Key Steps



# Determining the Ratings – Key Steps

Anchor										
Business risk profile	Financial risk profile									
	Extremely strong	Very strong	Strong	Moderately strong	Upper adequate	Lower adequate	Less than adequate	Weak	Very weak	Extremely weak
Excellent	aa+	aa	aa-	a+	a	a-	bbb+	bbb-	N/A	N/A
Very Strong	aa	aa-	aa- or a+	a+ or a	a	a-	bbb	bb+	bb	N/A
Strong	a+	a+ or a	a or a-	a-	a-	bbb+	bbb	bb+	bb-	b+
Satisfactory	a or a-	a-	a-	bbb+	bbb+	bbb	bbb-	bb	bb-	b
Fair	bbb+	bbb+	bbb+ or bbb	bbb	bbb	bbb-	bb+	bb	b+	b
Vulnerable	bbb-	bbb-	bbb-	bb+	bb+	bb+	bb	bb-	b	b
Highly vulnerable	bb-	bb-	bb-	bb-	bb-	bb-	b+	b	b	b- or lower

N/A--Not applicable.

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# Assessing The Business Risk Profile

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# Business Risk Profile Assessment

Business Risk Profile						
BUSINESS RISK PROFILE						
Industry And Country Risk						
Competitive Position						
IICRA	Competitive position assessment					
	1 (Extremely strong)	2 (Very strong)	3 (Strong)	4 (Adequate)	5 (Less than adequate)	6 (Weak)
1 (Very low risk)	Excellent	Very strong	Strong	Satisfactory	Fair	Vulnerable or highly vulnerable
2 (Low risk)	Excellent	Very strong	Strong	Satisfactory	Fair	Vulnerable or highly vulnerable
3 (Intermediate risk)	Very strong	Very strong	Strong	Satisfactory	Fair	Vulnerable or highly vulnerable
4 (Moderate risk)	Strong	Strong	Satisfactory	Fair	Vulnerable	Highly vulnerable
5 (High risk)	Fair	Fair	Fair	Vulnerable	Vulnerable	Highly vulnerable
6 (Very high risk)	Vulnerable	Vulnerable	Highly vulnerable	Highly vulnerable	Highly vulnerable	Highly vulnerable

In three cases, table indicates two possible BRP outcomes for a “weak” competitive position. The weaker outcome prevails for an insurer that consistently and materially underperforms peers. This is to offset the table’s lack of granularity at this point.

**S&P Global**  
Ratings

# IICRA



- Economic risk
- Political risk
- Financial system risk
- Payment culture and the rule of law



Country-related subfactors

- Institutional framework
- Return on equity
- Product risk
- Barriers to entry
- Market growth prospects

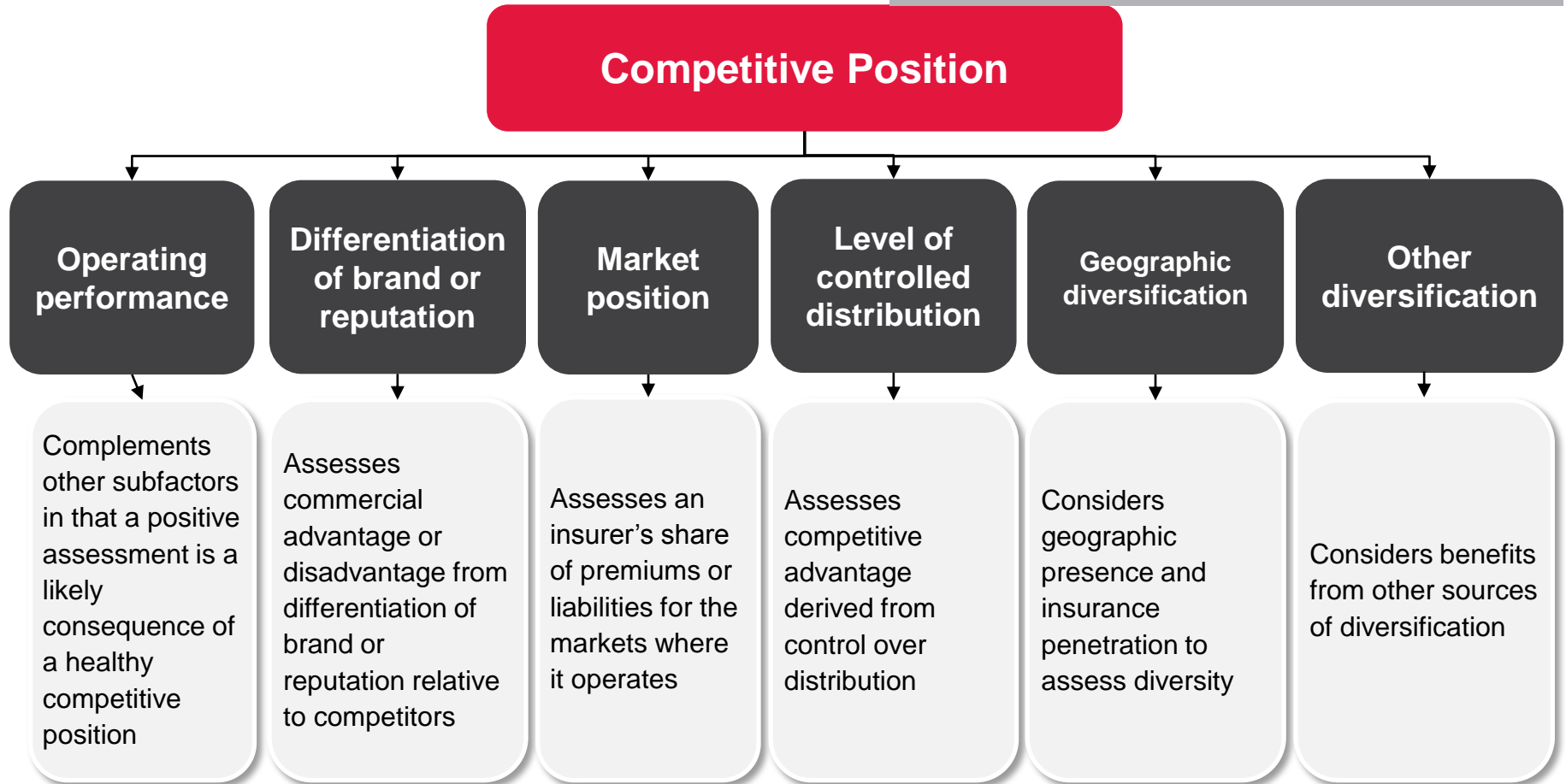


Industry-related subfactors



# Competitive Position

BUSINESS RISK PROFILE	
Industry And Country Risk	Competitive Position



**Underperformance or outperformance directly influences the operating performance assessment and limits that of three other subfactors**

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## Assessing The Financial Risk Profile

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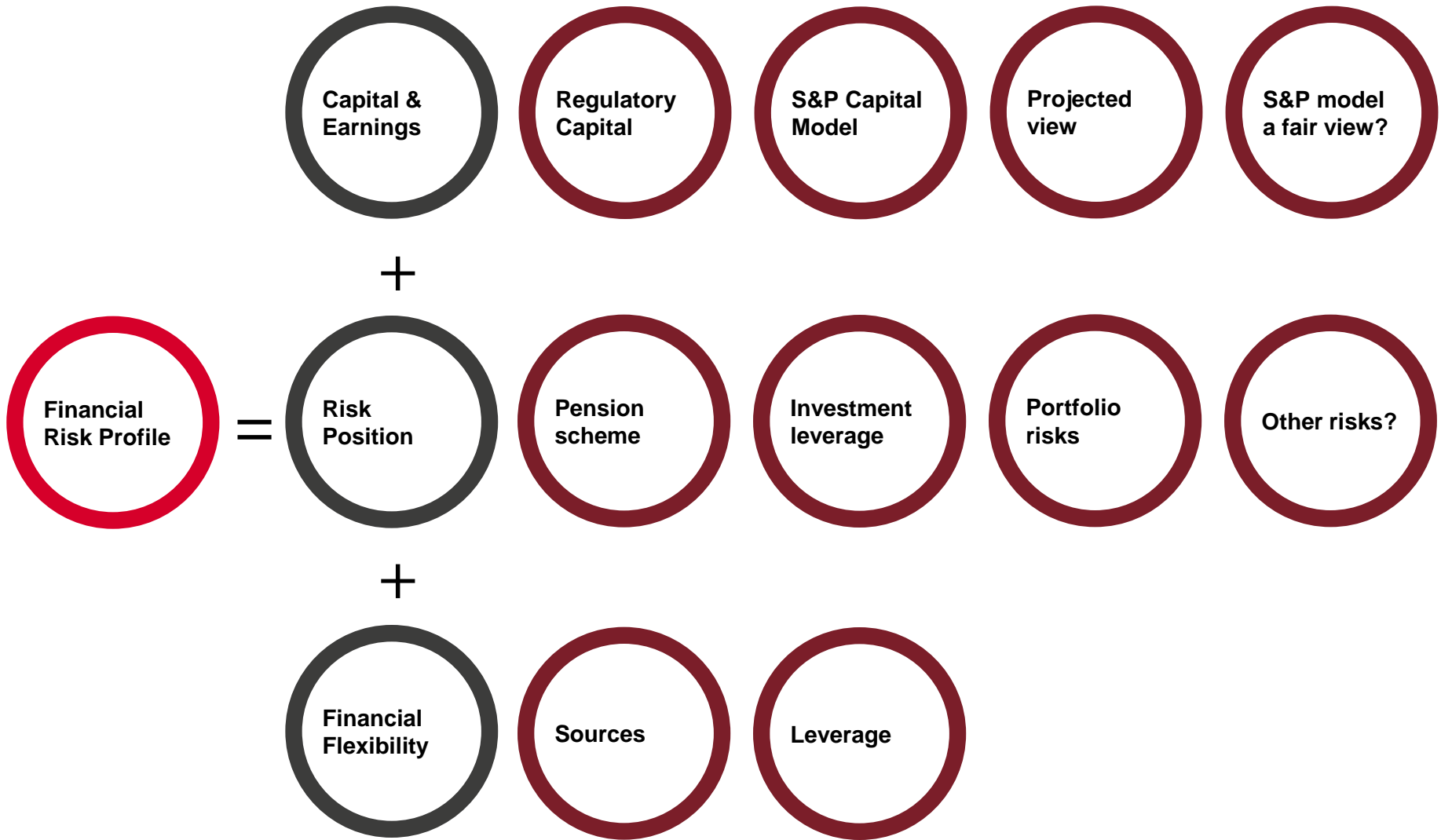
# Financial Risk Profile Assessment

## Financial Risk Profile Assessment

FRP results from capital and earnings assessment after adjustments associated with the assessments for risk position and financial flexibility					
Capital and earnings assessment	1 (Strong financial flexibility or low-risk position)	2 (Adequate financial flexibility or intermediate-risk position)	3 (Less than adequate financial flexibility or moderate-risk position)	4 (Weak financial flexibility or high-risk position)	5 (Very-high-risk position)
1: Extremely strong	-1	0	1	2	3 or more
2: Very strong					
3: Strong					
4: Moderately strong					
5: Upper adequate					
6: Lower adequate					
7: Less than adequate					
8: Weak					

# Capital Model In Context

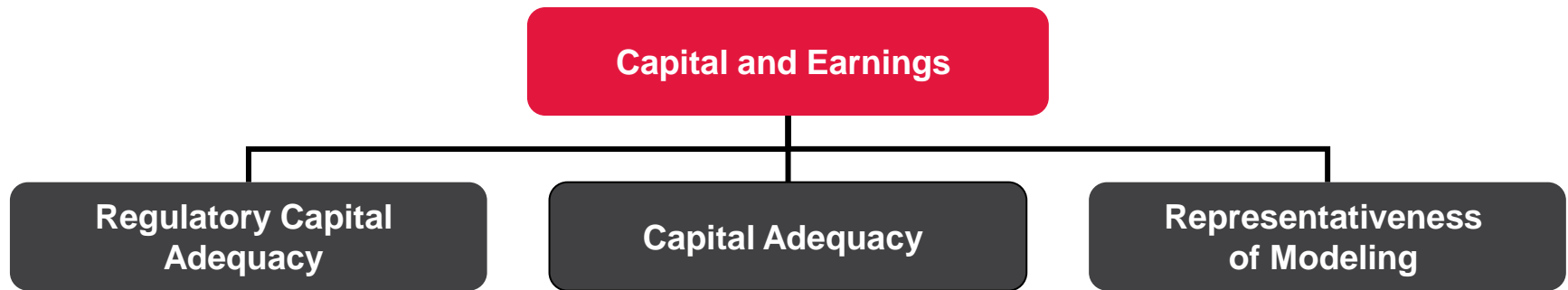
FINANCIAL RISK PROFILE	
Capital And Earnings	
Risk Position	Financial Flexibility



# Capital And Earnings

FINANCIAL RISK PROFILE	
Capital And Earnings	
Risk Position	Financial Flexibility

- Capital and earnings measures an insurer's ability to absorb losses
- Assessed prospectively using quantitative and qualitative measures



# Capital Adequacy

FINANCIAL RISK PROFILE	
<b>Capital And Earnings</b>	
Risk Position	Financial Flexibility

## Capital Adequacy Assessment

Score	Assessment	Guidance
1	<b>Extremely strong</b>	Prospective TAC exceeds the prospective RBC at the 'AAA' confidence level.
2	<b>Very strong</b>	Prospective TAC stands below the prospective RBC at the 'AAA' confidence level but above, or only slightly below, prospective RBC at the 'AA' confidence level.
3	<b>Strong</b>	Prospective TAC stands slightly above the prospective RBC at the 'A' confidence level, but significantly below the prospective RBC at the 'AA' confidence level.
4	<b>Moderately strong</b>	Prospective TAC stands significantly above the prospective RBC at the 'BBB' confidence level, but slightly below the prospective RBC at the 'A' confidence level.
5	<b>Upper adequate</b>	Prospective TAC stands slightly above the prospective RBC at the 'BBB' confidence level, but significantly below the prospective RBC at the 'A' confidence level.
6	<b>Lower adequate</b>	Prospective TAC stands 0%-15% below the prospective RBC at the 'BBB' confidence level.
7	<b>Less than adequate</b>	Prospective TAC stands 15%-50% below the prospective RBC at the 'BBB' confidence level.
8	<b>Weak</b>	Prospective TAC stands more than 50% below the prospective RBC at the 'BBB' confidence level.

RBC – Risk-based capital requirement.

TAC – Total adjusted capital.

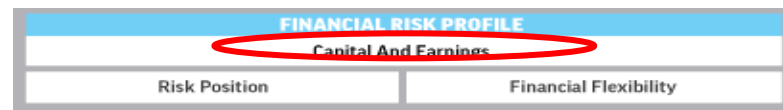
# S&P Capital Projection

## Sources of capital:

- Retained earnings
- Hybrid issuance
- Present value of future profits

## Uses of capital:

- Dividends/share buy-backs
- Investment profile
- Liability profile
- Acquisitions



# Representativeness of Modeling

Assesses whether the analysis of prospective capital adequacy has overstated or understated capital and earnings

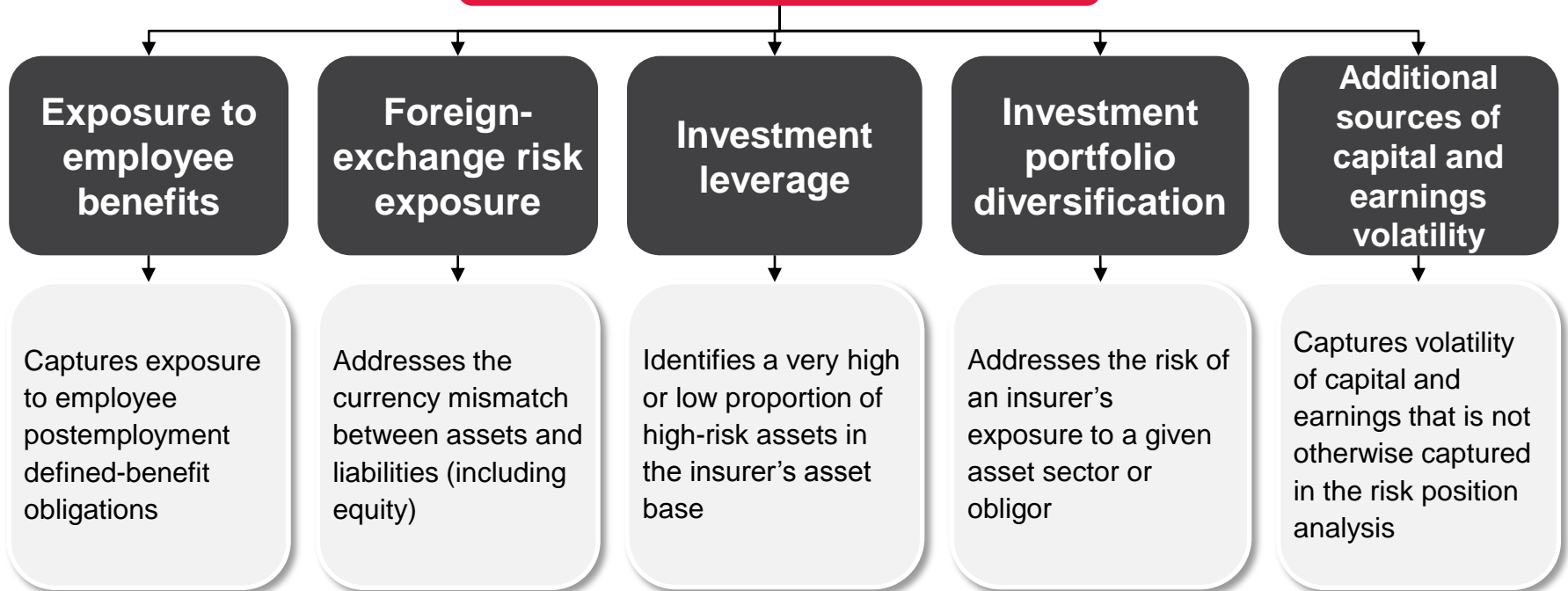
<b>Positive</b>	<ul style="list-style-type: none"><li>• If the capital model materially overstates specific product risks of the insurer</li></ul>
<b>Neutral</b>	<ul style="list-style-type: none"><li>• Other situations. Most large diversified primary insurers are likely to be assessed as neutral.</li></ul>
<b>Moderately Negative</b>	<p><b>Examples include:</b></p> <ul style="list-style-type: none"><li>• The capital model materially understates specific product risks of the insurer;</li><li>• TAC is small (generally &lt; \$1bn) making it more vulnerable to single-event losses than assumed in the capital model;</li><li>• A propensity for acquisitions or unpredictable shareholder-distributions that may weaken capital adequacy beyond what we believe can be reliably quantified;</li><li>• The assumption of capital fungibility and risk diversity in consolidated capital models overstates capital adequacy owing to legal, contractual or regulatory requirements that limit the ability to transfer capital or risk between entities; or</li><li>• Capital model results depend heavily on weaker forms of capital (for example, value in force, discount on P/C reserves, hybrid instruments or other weak forms of capital contribute more, in aggregate, than 50% of TAC).</li></ul>
<b>Negative</b>	<ul style="list-style-type: none"><li>• If the capital adequacy is significantly overstated in the capital model. This is the case, if a number of the situations highlighted above are present or if any one of them has the potential to significantly distort the outcome, or generally if TAC is consistently lower than approximately \$250 million or equivalent.</li></ul>



# Risk Position

FINANCIAL RISK PROFILE	
Capital And Earnings	
Risk Position	Financial Flexibility

## Risk Position

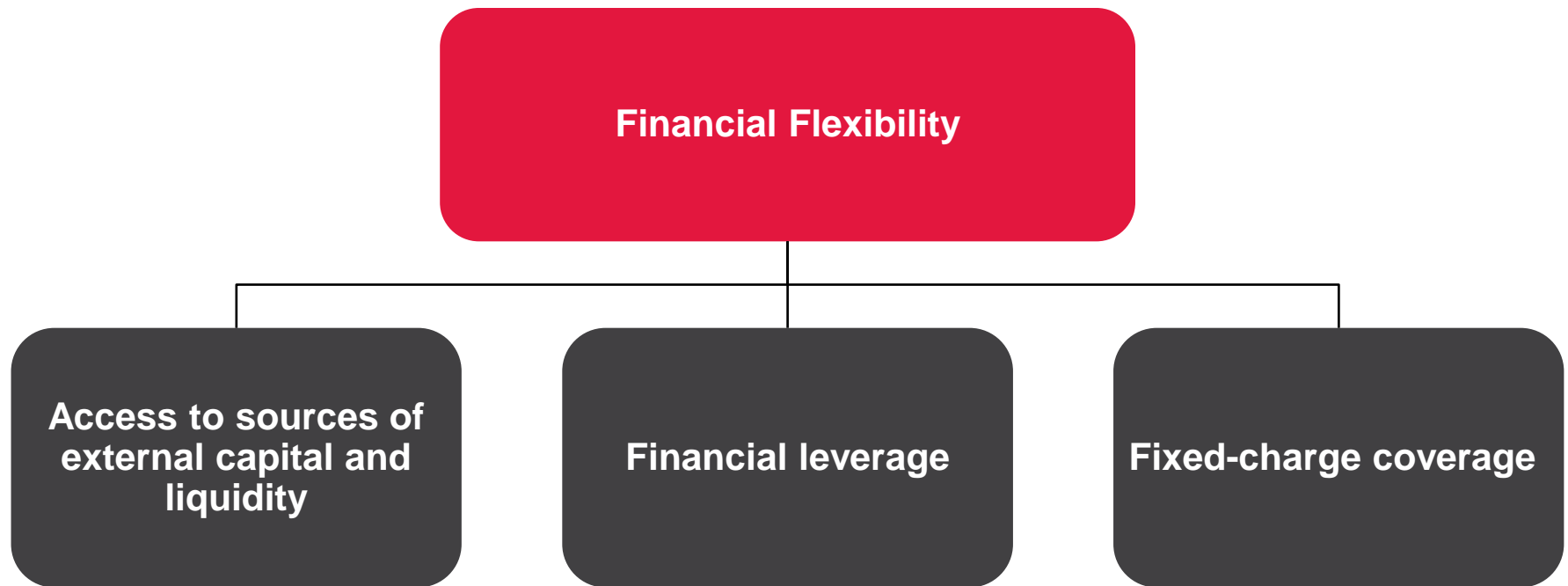


**Risk position assesses material risks that capital and earnings analysis does not incorporate and specific risks that it captures, but that could make an insurer's TAC significantly more or less volatile.**

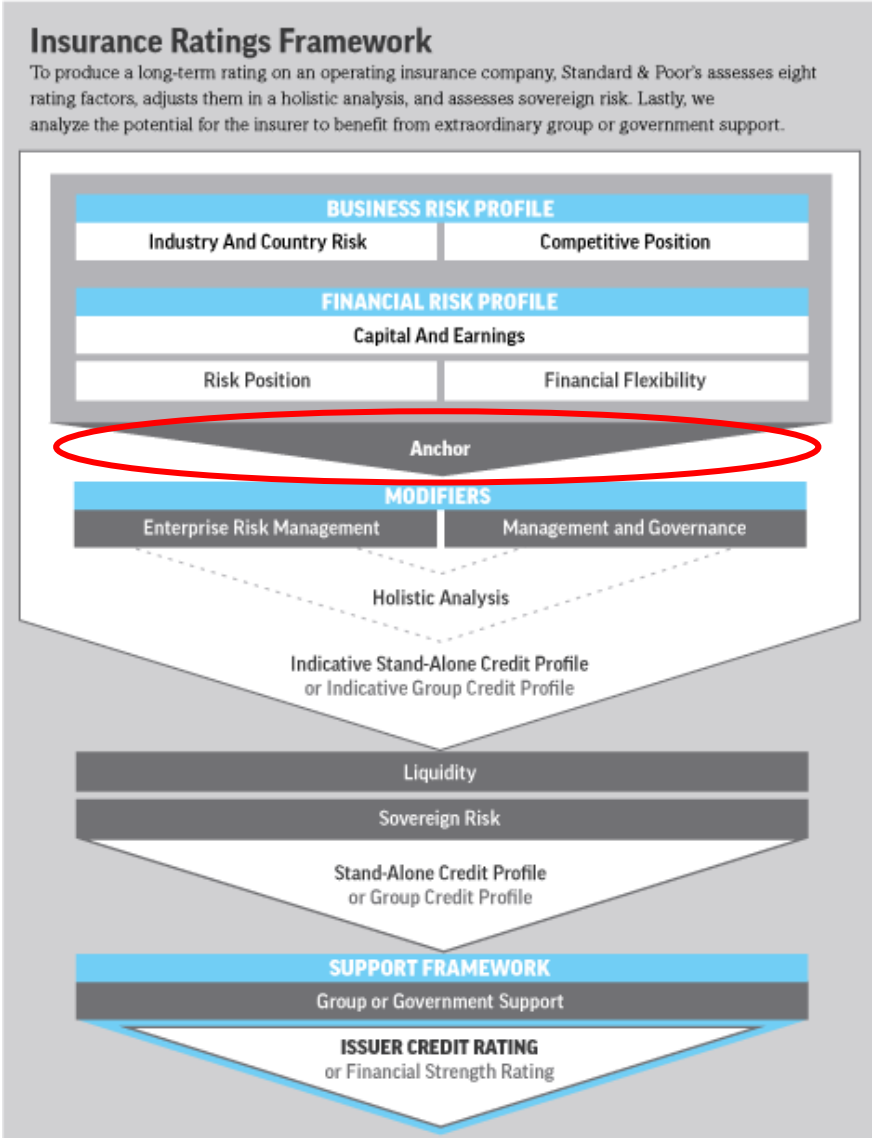
# Financial Flexibility

FINANCIAL RISK PROFILE	
Capital And Earnings	
Risk Position	Financial Flexibility

Assessed by using qualitative and quantitative measures to estimate the balance between an insurer's sources and uses of external capital and liquidity over the current and next two years



# Determining the Ratings – Key Steps



# Determining the Ratings – Key Steps

Anchor										
Business risk profile	Financial risk profile									
	Extremely strong	Very strong	Strong	Moderately strong	Upper adequate	Lower adequate	Less than adequate	Weak	Very weak	Extremely weak
Excellent	aa+	aa	aa-	a+	a	a-	bbb+	bbb-	N/A	N/A
Very Strong	aa	aa-	aa- or a+	a+ or a	a	a-	bbb	bb+	bb	N/A
Strong	a+	a+ or a	a or a-	a-	a-	bbb+	bbb	bb+	bb-	b+
Satisfactory	a or a-	a-	a-	bbb+	bbb+	bbb	bbb-	bb	bb-	b
Fair	bbb+	bbb+	bbb+ or bbb	bbb	bbb	bbb-	bb+	bb	b+	b
Vulnerable	bbb-	bbb-	bbb-	bb+	bb+	bb+	bb	bb-	b	b
Highly vulnerable	bb-	bb-	bb-	bb-	bb-	bb-	b+	b	b	b- or lower

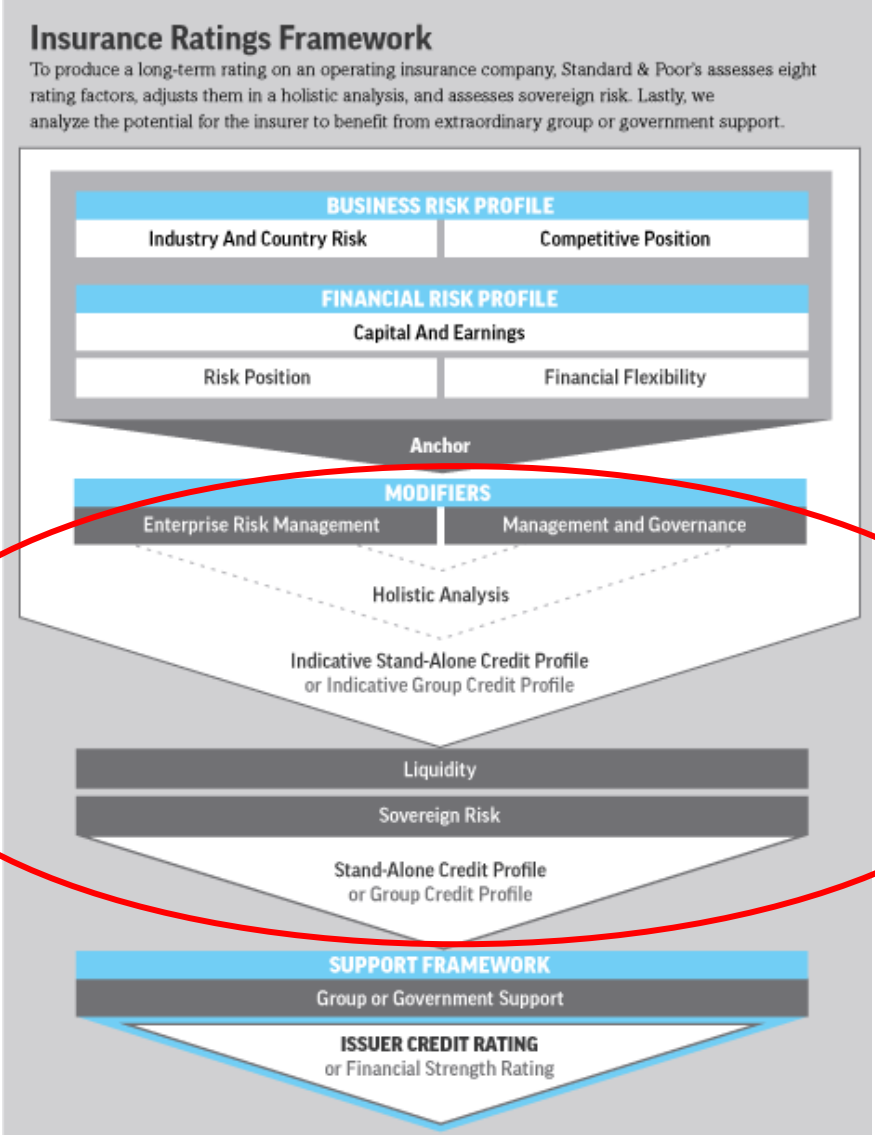
N/A--Not applicable.

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## Other Assessments

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# Determining the Ratings – Key Steps



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## Support Framework

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# Support Framework

Ratings of members of insurance groups are based on:

**For Government Related Entities (GREs):**

- Its GRE status
- its SACP
- the GCP

**For an insurance operating company**

- its group status
- its SACP, according to sections VI.A to VI.D of the criteria
- the GCP

**For a nonoperating insurance holding company**

- the GCP
- factors determining the differential between the GCP and the holding company's ICR

**For an operating holding company**

- the GCP, notched down to the extent that its holding company activities outweigh its operating company activities

**For a non-insurance operating company**

- its group status
- its SACP, according to relevant criteria (bank, other financial institution, or corporate)
- the GCP



# Differential between FSR and ICR

An insurance operating company's FSR is set at the same level as its ICR except:

- **To reflect explicit support for policyholder obligations**
  - Since the support does not extend to debt holders, the FSR may be enhanced by such support, whereas the ICR is not
- **Ratings in the 'B' category or below**
  - When the ability and willingness to service debt differ from the ability and willingness to service policyholder obligations
  - In such cases the gap between the two ratings may span several notches

# Group Status Assessment of Group Members

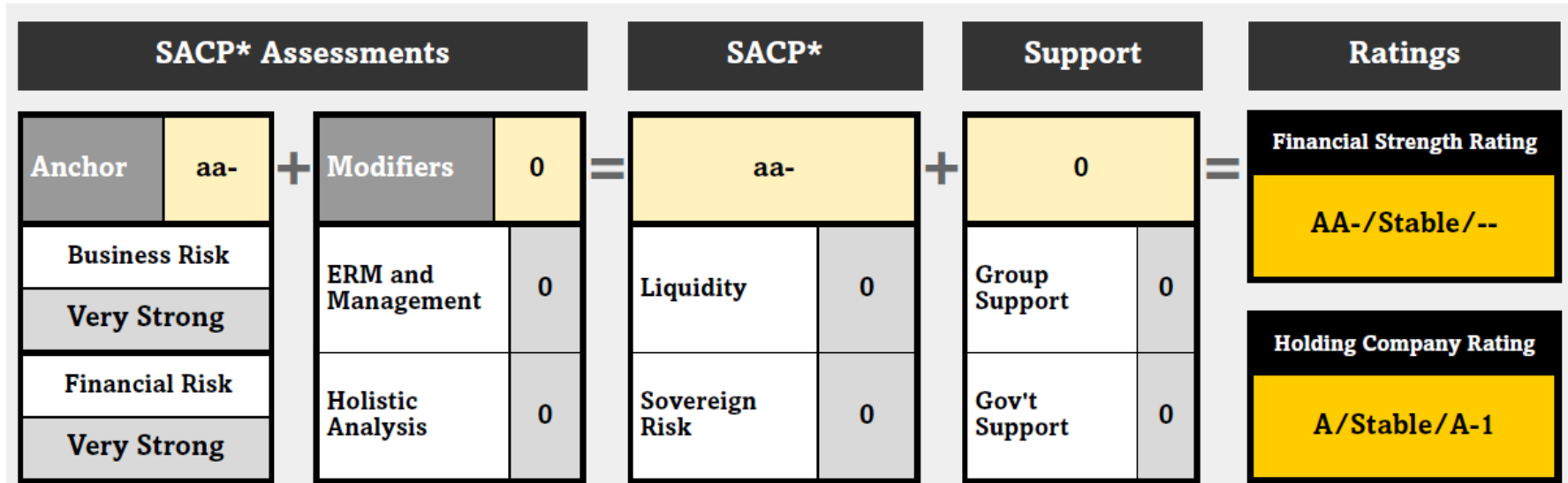
Group Status Assessment		
Group status	Brief definition	Potential long-term ICR
<b>Core</b>	Integral to the group's current identity and future strategy. The rest of the group is likely to support these entities under any foreseeable circumstances.	Generally at GCP
<b>Highly strategic</b>	Almost integral to the group's current identity and future strategy. The rest of the group is likely to support these subsidiaries under almost all foreseeable circumstances.	Generally one notch below GCP
<b>Strategically important</b>	Less integral to the group than highly strategic subsidiaries. The rest of the group is likely to provide additional liquidity, capital, or risk transfer in most foreseeable circumstances. However, some factors raise doubts about the extent of group support.	Generally three notches above SACP
<b>Moderately strategic</b>	Not important enough to warrant additional liquidity, capital, or risk transfer support from the rest of the group in some foreseeable circumstances. Nevertheless, there is potential for some minimal support from the group.	Generally one notch above SACP
<b>Nonstrategic</b>	No strategic importance to the group. These subsidiaries could be sold in the near to medium term.	Generally at SACP

# Ratings Snap Shot – Peer Comparison



# Example of Published Snapshot

## AIA Group Ltd. And Subsidiaries



# Peer Comparison

	The Great Eastern Life Assurance Group	AIA Group	NTUC Income	HSBC Insurance (Singapore)	Manulife Financial Corp.	Prudential Group
FSR	AA-	AA-	AA-	A+	AA-	AA
Outlook	Stable	Stable	Stable	Stable	Stable	Stable
Anchor	aa-	aa-	a-	a-	aa-	aa
Business Risk Profile	Very Strong	Very Strong	Very Strong	Satisfactory	Very Strong	Excellent
IICRA	Low	Intermediate	Low	Low	Low	Low
Competitive Position	Very Strong	Extremely Strong	Very Strong	Adequate	Very Strong	Extremely Strong
Financial Risk Profile	Very Strong	Very Strong	Lower Adequate	Very Strong	Very Strong	Very Strong
Capital and Earnings	Very Strong	Very Strong	Upper Adequate	Very Strong	Very Strong	Very Strong
Risk Position	Intermediate	Intermediate	Moderate	Intermediate	Intermediate	Intermediate
Financial Flexibility	Strong	Strong	Adequate	Adequate	Strong	Strong
Enterprise Risk Management	Adq, Strong Risk Controls	Adq, Strong Risk Controls	Adequate	Adq, Strong Risk Controls	Strong	Strong
Management and Governance	Satisfactory	Satisfactory	Satisfactory	Satisfactory	Satisfactory	Strong
Holistic Analysis	0	0	0	0	0	0
Liquidity	Exceptional	Exceptional	Strong	Exceptional	Exceptional	Exceptional
Group/Govt. support	0	0	+3	+2	0	0

Note: Ratings Snapshot information is for illustration only.

# Peer Comparison

## Anchor

Business risk profile (from table 2)	Financial risk profile (from table 8)					
	Extremely strong	Very strong	Strong	Moderately strong	Upper adequate	Lower adequate
Excellent	aa+	PRU Group aa	aa-	a+	A	a-
Very Strong	aa	GE, AIA, MANU aa-	aa- or a+	a+ or a	a	NTUC a-
Strong	a+	a+ or a	a or a-	a-	a-	bbb+
Satisfactory	a or a-	HSBC Ins. Singapore a-	a-	bbb+	bbb+	bbb
Fair	bbb+	bbb+	bbb+ or bbb	bbb	bbb	bbb-

AIA – AIA Group;

GE – Great Eastern Group;

HSBC – HSBC Insurance (Singapore);

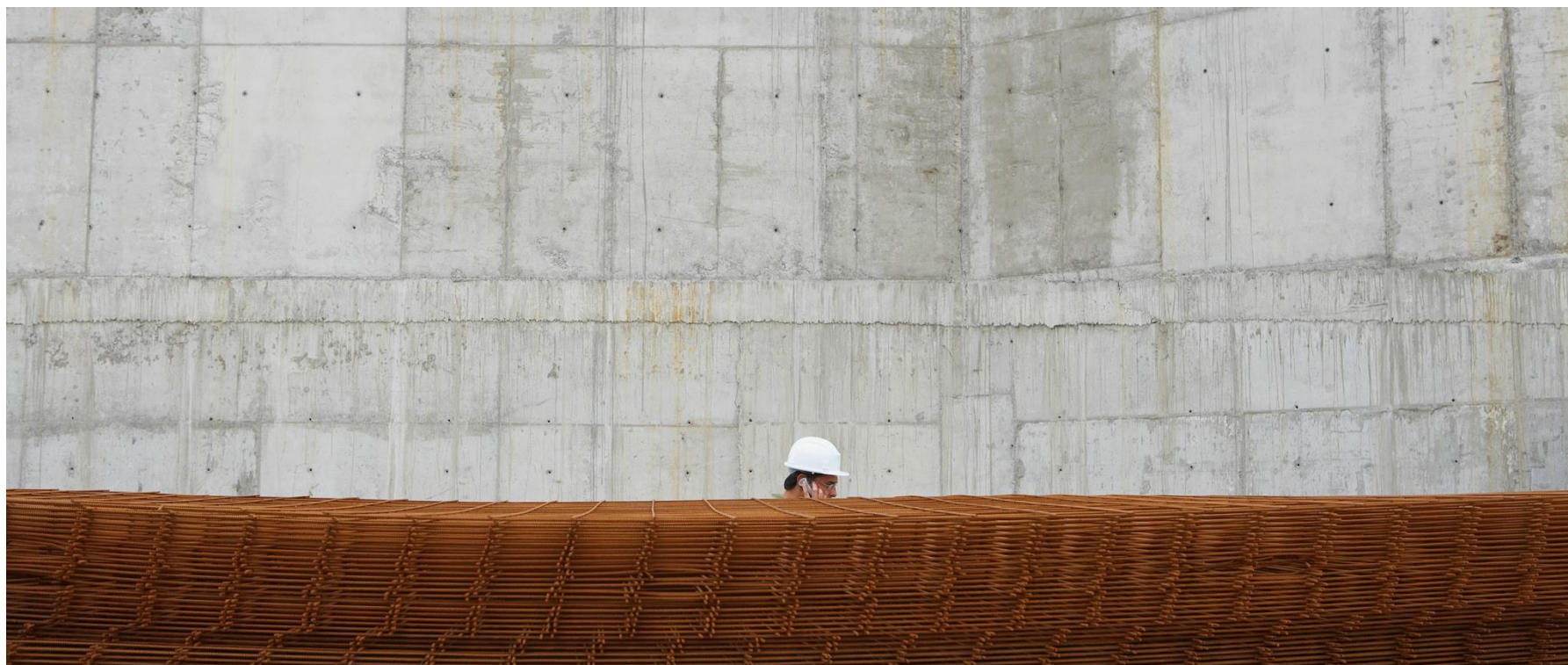
MANU – Manulife Financial Corp.;

NTUC – NTUC Income Insurance;

PRU Group – Prudential Group

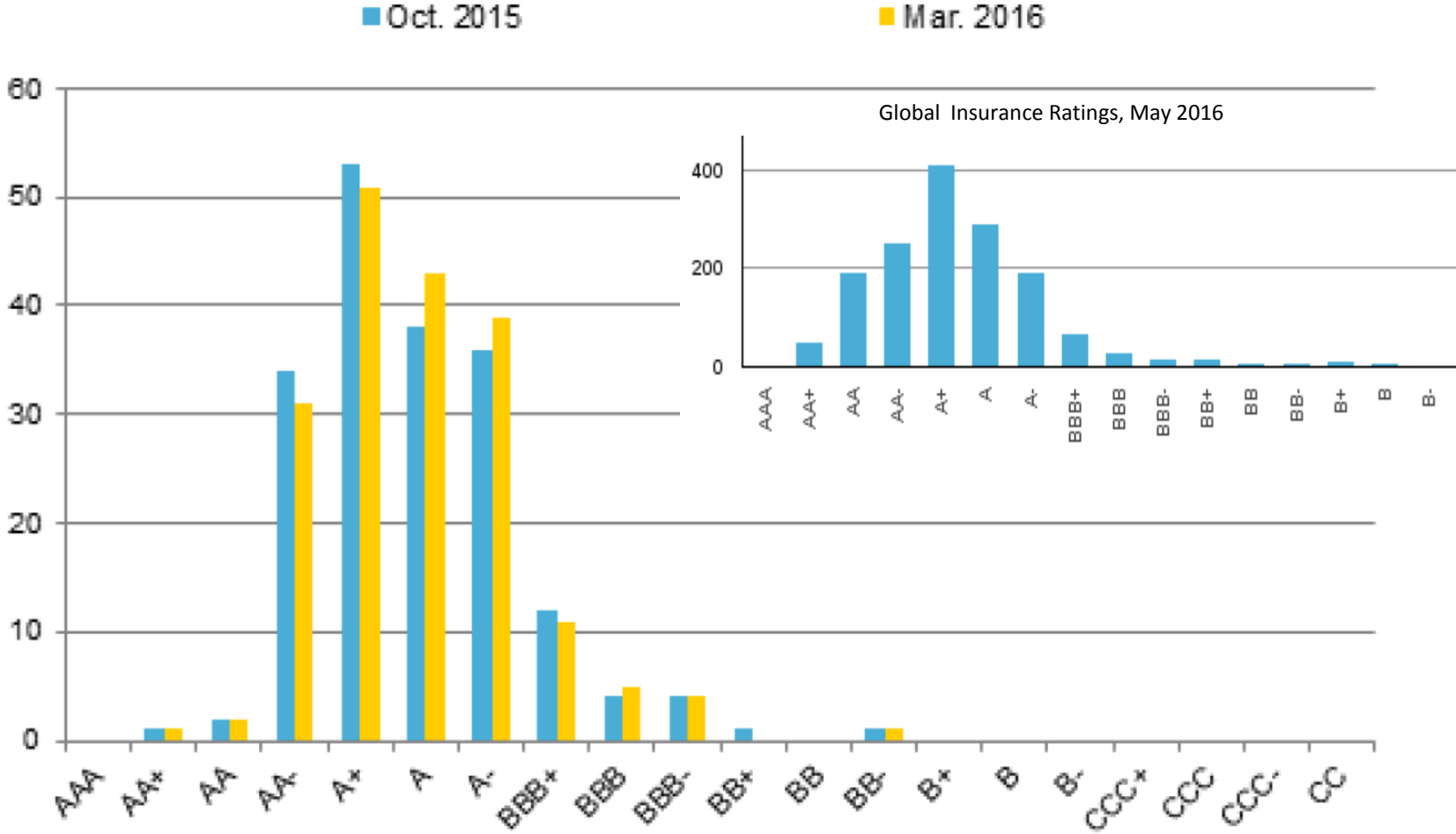
**S&P Global**  
Ratings

# S&P's View on Asia-Pacific Insurance Industry



# APAC Insurance Ratings

Asia-Pacific Rating Distribution For The Insurance Sector At March 31, 2016

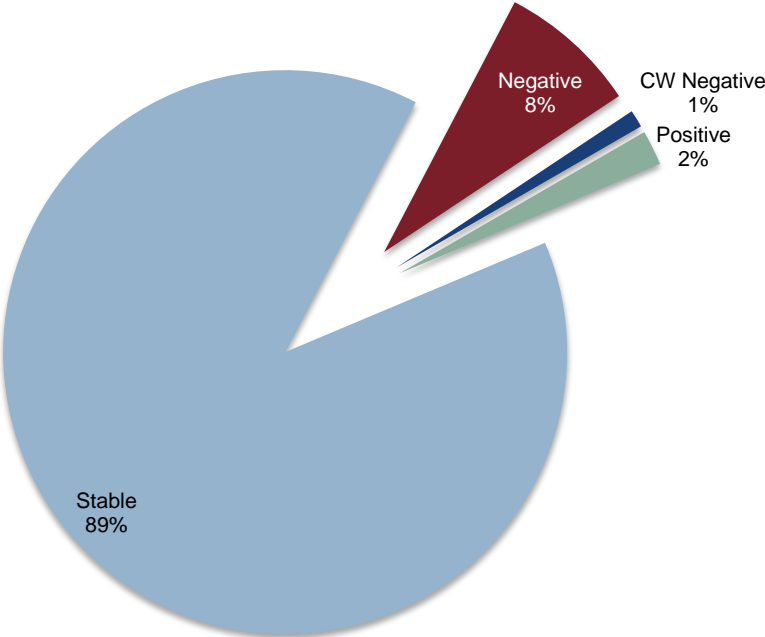


Source: S&P Global Ratings. Asia-Pacific Sector Outlook 2Q 2016: Net Negative Bias Inches Up to 9%, Apr 18, 2016

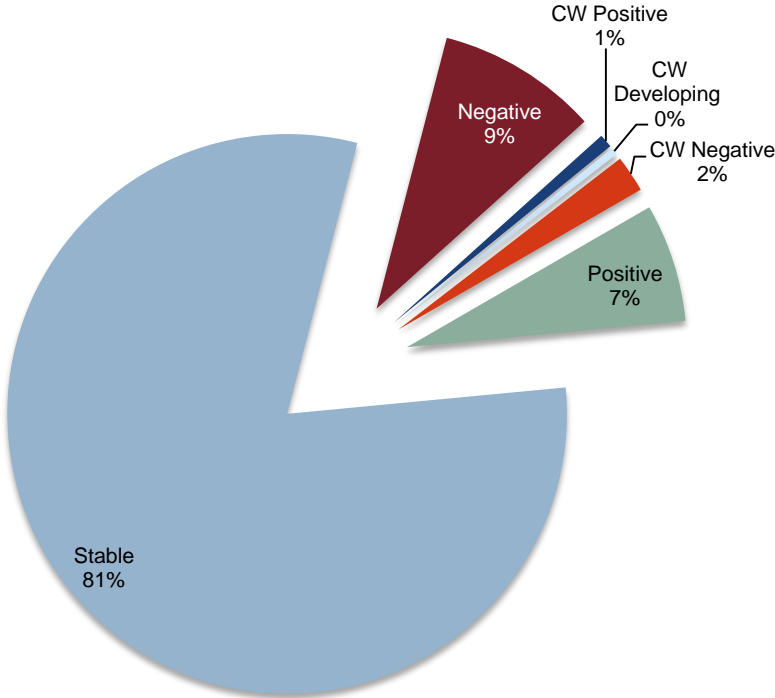


# Global and APAC Insurance Sector Outlook

Asia-Pacific Insurance Outlook, Mar 2016

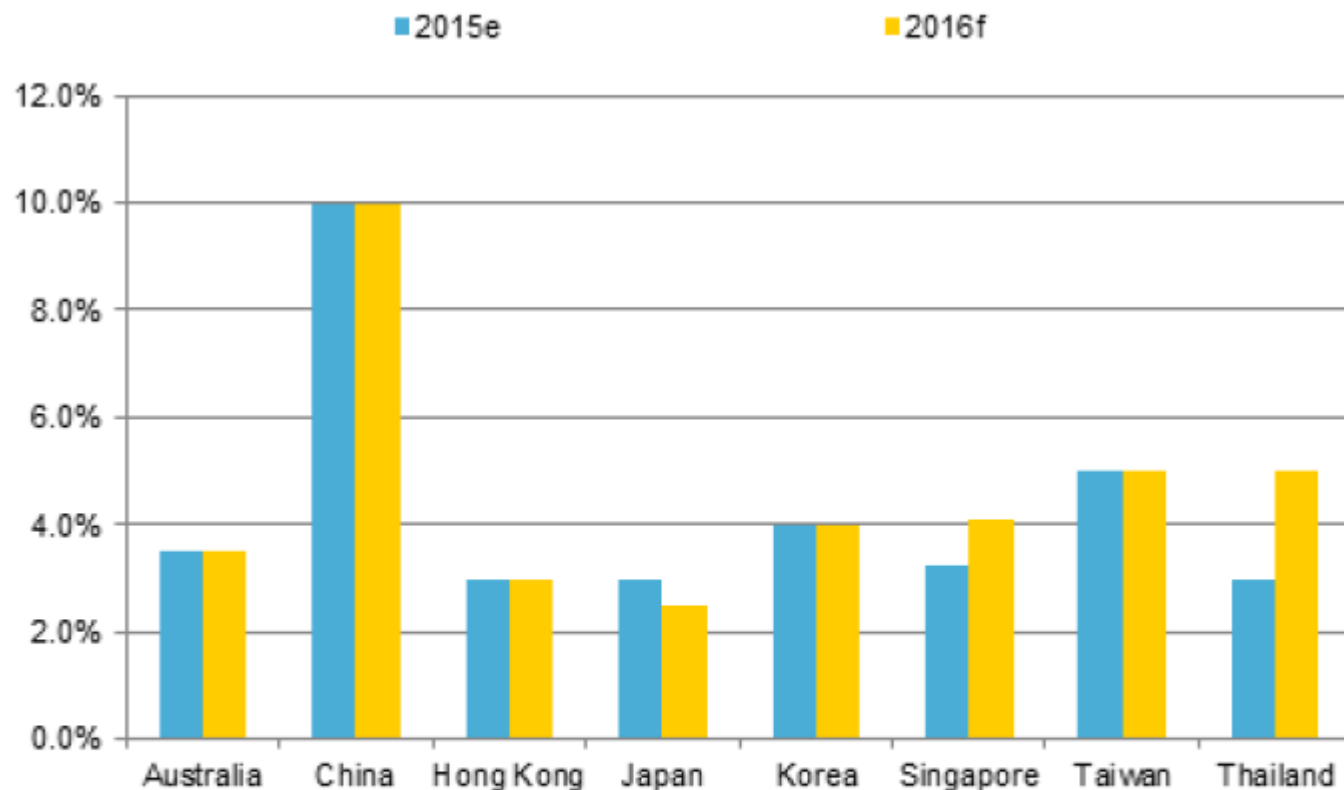


Global Insurance Outlook, May 2016



Source: S&P Global Ratings

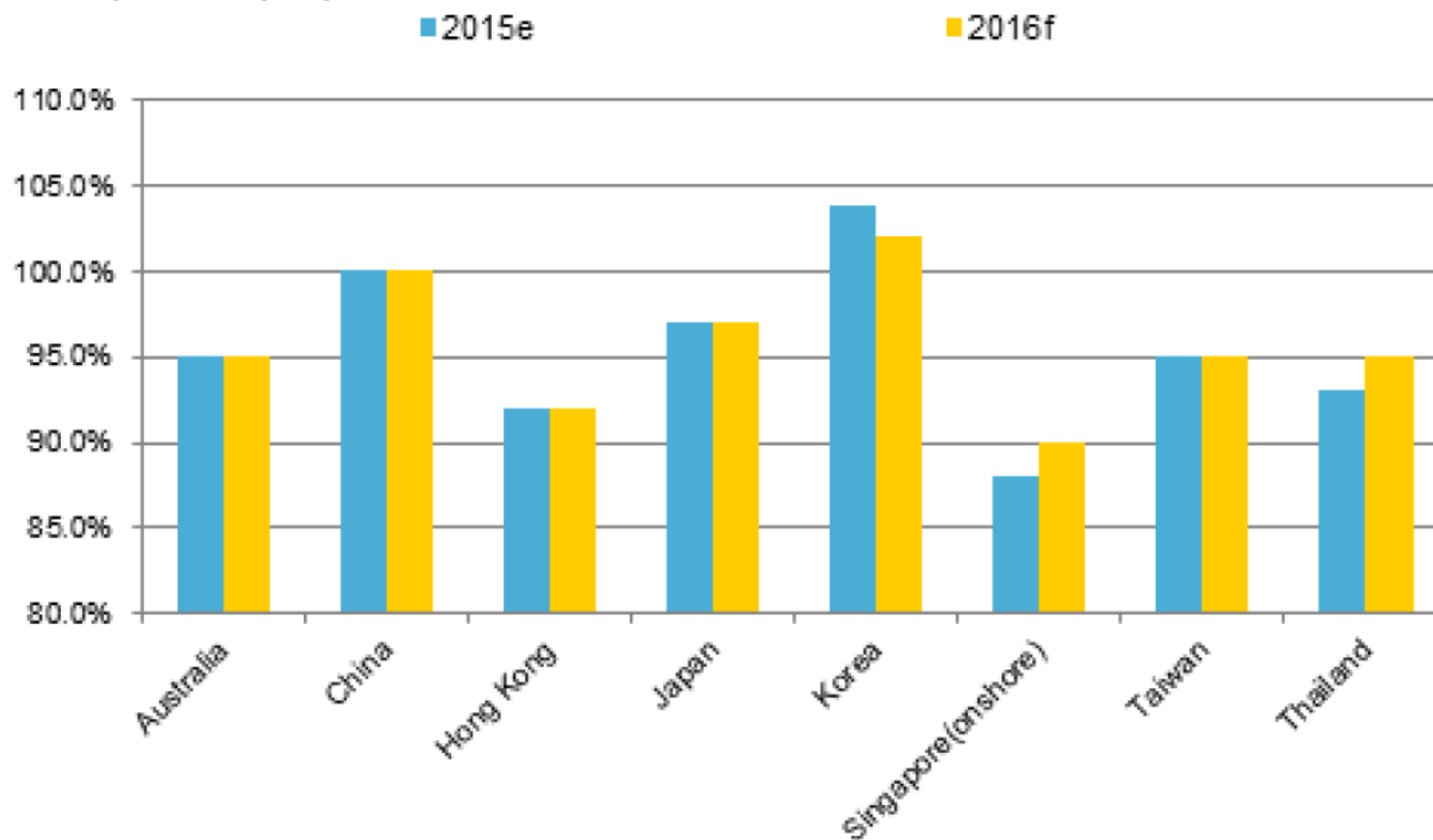
# APAC P&C Premium Growth



E--Estimate. F--Forecast. Source: Standard & Poor's Ratings Services. The figures are based on estimated ranges as at Dec. 7, 2015.

© Standard & Poor's 2015.

# APAC P&C Combined Ratio



E--Estimate. F--Forecast. Source: Standard & Poor's Ratings Services. The figures are based on estimated ranges as at Dec. 7, 2015.

© Standard & Poor's 2015.

# Global And Regional Growth Expectation

(%)	Global*	APAC	Latin America	CEEMEA	Western Europe	North America
Median FSR	A-	A-	BBB	BBB	A	A
Capital Redundancy level (2017, weighted)	A	BBB	BBB	A	AA	AA
Earnings growth CAGR (2015 – 2017)	7.2	11.4	20.8	23.7	4.4	6.6
Nominal Gross Premium Growth 2016 – Overall	3 – 5	5 - 7	8.0	6.0	2.0	5 – 7
Life	2.8	4.0	8.0	7.3	1.8	2.5
P/C	7.0	7.0	10.0	6.0	2.3	4.0
Health	7.0	7.0	8.0	N/A	0.2	15.0
Mortgage	1.0	(10.0)	N/A	N/A	N/A	3.4

Source: S&P Global Ratings. Insurers Worldwide Confront An Interlocking Puzzle Of Factors That Make Growth Tough To Find, May 3 2016

# P/C Insurance Industry and Country Risks Assessment (IICRAs)

Country	Country Risk	Industry Risk	IICRA
Australia	Very low risk	Low risk	Low risk
China	Moderate risk	Low risk	Intermediate risk
Hong Kong	Very low risk	Intermediate risk	Low risk
Japan	Low risk	Moderate risk	Intermediate risk
Korea	Intermediate risk	Intermediate risk	Intermediate risk
Malaysia	Intermediate risk	Intermediate risk	Intermediate risk
New Zealand	Low risk	Intermediate risk	Intermediate risk
Singapore	Very low risk	Low risk	Low risk
Taiwan	Intermediate risk	Low risk	Intermediate risk
Thailand	Moderate Risk	Intermediate risk	Intermediate risk
U.K.	Low risk	Moderate risk	Intermediate risk
U.S.	Very low risk	Intermediate risk	Intermediate risk
Global Reinsurance	Low risk	Moderate risk	Intermediate risk

Source: Insurance Industry And Country Risk Assessment Update: July 2016; July 28, 2016

# Key Challenges for Asia-Pacific Insurers

- Slower economic growth
- Fierce competition
- Capital pressure – continued growth and increase of asset risks
- Potential unexpected or un-modeled natural catastrophe risks
- Challenging investment environment which contribute to volatility
- Tightening regulatory oversight; regulatory changes

# Asia-Pacific Insurance - Credit Trends

Generally “Stable” credit trend in APAC:

## Property & Casualty Sector

- Premium rates remain competitive for non catastrophe risks
- Top line focus amid uncertain economic conditions
- Strong focus on expense management

## Life Sector

- Growth prospective remains good but slow down in some markets
- Improvement in ALM mismatch but still a challenge
- Prolonged low interest rates

## Reinsurance Sector

- Slowing rate decline; rates remain soft with excess capacity
- Expect expense pressure and operating result volatility
- Strong capitalization

# Reinsurance – Credit Conditions Remain Negative

- Supply and demand dynamics continue to impact pricing:
  - Capital levels remain **at all-time** highs; continued influx of alternative capital is also increasing supply
  - Buyers purchasing patterns are changing; reducing demand
  - **Organic growth is difficult to come by**
- Reinsurers taking steps to protect their balance sheets and market positions such as changing their business mix, buying more retro, and consolidating to improve scope or diversification.
- Alternative capital is a permanent element in the competitive landscape.
- Softening pricing will continue to pressure the sector's operating performance.
- Low interest rates persist and macro-economy growth outlook is uneven.
- Smaller, less diversified reinsurers will continue to be squeezed, threatening competitive positions. These companies could be candidates for future consolidation



# Regulatory Update and Its Implications



# IAIS Emerges As Global Insurance Supervisor

Key player: International Association of Insurance Supervisors

Improving quality of insurance supervision globally

Peer of Basel Committee for Banking Supervision since 1993

Three key activities

IAIS Activity	Legal Entity (All)	Groups (All)	IAIGs (50)	G-SIIs (9)
ICPs	✓	✓	✓	✓
ComFrame*			✓	✓
G-SII*				✓

\* Includes Global Insurance Capital Standard

# Overview – Regulatory Change in APAC

- C-ROSS effective January 1, 2016.
- Australia and Singapore lead in the APAC region followed by Japan.
- Asia-Pacific broadly lags behind Europe, the U.S., and Canada, but continues to strengthen
- Benefits to the overall credit profile of a particular insurer could be mixed, depending on whether the benefits outweigh the costs
- We do not envisage a significant number of positive or negative ratings actions driven by regulatory initiative

# Institutional Framework – S&P’s Assessment

## Standard & Poor's Insurance Industry And Country Risk Assessments In Asia-Pacific (IICRA)

Jurisdiction	Regulator	IICRA Assessments
Australia	Life: Australian Prudential Regulation Authority (APRA); Non-life: APRA; Health: Private Health Insurance Administration Council (PHIAC)	Life: Low Risk; Non-life: Low Risk; Health: Low Risk
China	China Insurance Regulation Commission (CIRC)	Intermediate Risk
Hong Kong	Office of the Commissioner of Insurance (HKOCI)	Low Risk
Japan	Financial Services Agency (FSA)	Intermediate Risk
Malaysia	Bank Negara Malaysia (BNM)	Intermediate Risk
New Zealand	Reserve Bank Of New Zealand (RBNZ)	Life: Low Risk; Non-life: Intermediate Risk; Health: Intermediate Risk
Singapore	Monetary Authority of Singapore (MAS)	Low Risk
South Korea	Financial Supervisory Service (FSS)	Non-life: Intermediate Risk
Taiwan	Financial Supervisory Commission (FSC)	Life: Moderate Risk; Non-life: Intermediate Risk
Thailand	Office of Insurance Commission (OCI)	Intermediate Risk

Source: Standard & Poors.

Source: Standard & Poor's, Regulatory Sophistication Changes The Dynamics For Asia-Pacific Insurers, Nov 2, 2015

# Regulatory Sophistication Changes Dynamics For APAC Insurers

## Regulatory Frameworks Across Asia-Pacific

Jurisdiction	Regulator	Separation of insurance and banking regulators	RBC Regime in 2015	RBC Regime in 2007
Australia	APRA	No	Yes	Yes
China	CIRC	Yes	Yes*	No
Hong Kong	HKOCI	Yes	No	No
Japan	FSA	No	Yes	Yes
Malaysia	BNM	No	Yes	Yes
New Zealand	RBNZ	No	Yes	Yes
Singapore	MAS	No	Yes	Yes
South Korea	FSS	No	Yes	No
Taiwan	FSC	No	Yes	Yes
Thailand	OIC	Yes	Yes	No

RBC-Risk-based capital. Note: In February 2015, China began the transition towards a risk-based capital requirement. During the transition period, the supervisory measurements are largely based on the solvency margin requirement.

- The sophistication of new regulatory measures varies according to insurance market maturity
- Greater regulatory relaxation could spur market consolidation and improve market discipline in some regions
- Regulatory changes are likely to stimulate M&A activity, but the associated risks appear manageable for now
- A significant number of Asia-Pacific insurer downgrades or upgrades are unlikely over the next two years

# Questions?

# Thank you

Philip Chung

Director

T: +65 6239 6343

[philip.chung@spglobal.com](mailto:philip.chung@spglobal.com)

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Ratings

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