

Optimizing an Insurance Company's Ratings

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Optimizing Your Company's Ratings Means Optimizing Your Company!

Optimizing your company involves optimizing your strategy, businesses, operations, finance, investments, risk management, execution ... and how the rating agencies view and analyze them

Introduction

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- Welcome!
- This is an interactive seminar ... I urge you to ask questions. Also, please feel free to share your experiences (that you feel comfortable with) – they will be very informative to the group and will suggest strategies/ tactics that can be employed in important situations.
- The operating environment, 2008 to the present ... and looking ahead to the future, has been the most difficult of our careers, and insurers are facing their greatest challenges ever
- The ratings and outlooks assigned by the rating agencies reflect this environment and these challenges
- Overview – Cohen Strategic Consulting

Introduction (cont'd)

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- The strategic questions the analysts are asking may be the same:
 - Products
 - Earnings
 - Capital
 - Investmentsbut the answers are **very** different
- Your company needs to present answers/solutions, especially because most companies' results have not been as favorable as they historically have been. Your responses and more broadly your rating management approach need to be conservative, yet proactive! Many companies have assumed defensive postures in the last several years, and many hold the view that they don't have any leverage over the rating process ... such passive views are serious mistakes!

Seminar Closure Objectives 6

- OPTIMIZE YOUR RATINGS
- Create a Win-Win situation with the rating agencies that follow your company, in which
 - The rating agencies' goals
 - Your goalsare met
 - The process of the rating agencies meeting their own goals has become much more complicated than it already was (part of their 'mindsets'), and **it of course precedes your company meeting its goals.**
- Demystify the rating process (there is no black box!):
 - Frame rating factors as 'cause/effect' pairs
 - Discuss issues where you don't agree with your analysts to better understand their points of view, 'drill down'
- OPTIMIZE YOUR COMPANY'S CURRENT AND FUTURE PERFORMANCE

Perspectives on Ratings

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- Ratings are opinions
- A company's rating is relative to all other companies' ratings, and to the outlook for the industry
- Quantitative and qualitative (and subjective!) factors are evaluated in the rating process
- Your analyst's views of/perspectives about your company and his/her capabilities, above and beyond the quantitative and qualitative factors, are critical in the analysis underlying and process of assigning your rating; your working relationship with them also has a major impact of their views/perspectives of your company

Rating Management Strategy 8

- Optimize the relationships with your rating agency analysts
- Identify factors that can affect your company's ratings, and ensure that your company's position relative to each is as favorable as it can be
- Present your company's 'story' and results in the best possible light; it is critical that it is presented in the best format for the analysts to **digest** and **understand** it, and that it is accompanied with key (and plausible) assumptions

Rating Management Strategy 9

(cont'd)

- Key elements
 - Key rating indicators/statistics
 - Industry issues, and how your company responds to them
 - Management
 - Financial
 - Investment
 - Distribution, products, marketing
 - Risk management

The Outlook for Most Insurance Segments is Stable; however ...

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- The rating agencies have had ‘negative outlooks’ on most insurance segments at some point during the past eight years, meaning that:
 - The operating environment continues to be difficult
 - The general strength of insurance companies has declined, and not fully recovered for many
 - They still expect a number of downgrades in the near to intermediate term

Your Relationship With The Rating Agencies

Having A Successful Relationship With The Rating Agencies

(as they see it)

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- Overview – perspectives on the relationship
 - The rating agencies' have audiences that they speak to ... and answer to
 - They don't want to be 'embarrassed': they want to be able to discuss your company intelligently and explain why your rating makes sense in their rating universe
- Confidentiality and transparency
- Timeliness; delays in response say one of two things to the analysts: ignorance or problems
- Effective and professional relationship; liaison
- Rating agency expectations of a company
- Company expectations of a rating agency

Having A Successful Relationship With The Rating Agencies (cont'd)

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- Understand the Analyst's role, duties and capabilities, and be 'in sync' with them
 - Before the company meeting
 - At the meeting
 - After the meeting
 - Ongoing
 - Postmortem
 - Conclusion
 - **This is a continuous, full year process**

Having A Successful Relationship With The Rating Agencies

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(as you see it)

Key elements:

- The analysts have a good understanding and a favorable impression of your company, including an appreciation of how you are addressing your issues (with tangible action plans) and a belief that you will be successful in doing so
- You and your analyst(s) have a positive, friendly rapport (and that they trust you and the information you give them)
- Business elements at your company are not cited by the rating agencies as industry areas of concern
- The analysts are comfortable with your plans for the future and have confidence that you will meet your goals and expectations
- You have enabled the analysts to be your advocates to their rating committee
- The analysts follow the agencies' stated methodologies
- **Most importantly (of course) – your ratings are what you believe they should be**

Having A Successful Relationship With The Rating Agencies

(as you see it)

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... Is A Function of The Analyst's Views, Perspectives, Capabilities

- Do they like you? Are you easy/enjoyable to deal with?
- What companies do they follow in their portfolio? (Beyond peer analysis, their frames of reference are the companies that they know best)
- The 'Pygmalian Effect: Your analysts may have heard things about your company (from prior analysts) that could be dated
- Are your analysts generally positive or negative people?
- How well do they write?
- How personally confident are they?
- Are they outgoing or shy?
- How experienced are they?
 - As an analyst
 - Working in insurance company management
- How are they and their work viewed by the rating committee?

Having A Successful Relationship With The Rating Agencies: 16 Your Rating Agency Liaison

- The executive from your company who has the primary responsibility for interfacing with the rating agencies plays a major role in helping your company receive the highest possible ratings (and having a positive relationship with the rating agencies).
- Recommended corporate role for the liaison: CFO, Strategic Planner, IR; choosing someone with the necessary skills/knowledge is paramount!
- Someone who knows both the company and rating agency positions intimately, has strong relationships within the company and has wide-ranging knowledge of and access to data

Having A Successful Relationship With The Rating Agencies: 17 Your Rating Agency Liaison

Key exchanges:

- Issues the analyst is troubled with: thinking on your feet
 - Mutual company issue: Your dividends (to participating policyholders) cause an ongoing reduction in your earnings
 - Variable annuities: Product guarantees, equity markets affecting separate account performance, expenses
 - Intensifying competition, driven by ever larger companies and the ‘wave’ of consolidation; we are concerned about how you will be able to compete effectively going forward
 - Concentration
- The dreaded “Your rating is under pressure”
 - Your capital position, particularly your risk adjusted capital position, has weakened
 - We have raised our expectations of capital for each rating level
 - Your earnings are (down/trending down, volatile, below those of your similarly rated peers)
 - Your sales results are declining in XYZ line
 - Certain competitors are executing strategies that will erode your position
 - Some of the asset classes you are in have significant risk
 - There is regulatory uncertainty affecting one of your businesses

The Rating Agency's Mindsets 18

- Views on the industry, operating environment
 - Outlook on the industry (a number of segments have been negative ... this varies by rating agency and point in time), implications
 - Positive, negative/troublesome factors
- The meaning of 'stable outlook', vis a vis what it meant in 2007 and prior
- The rating agencies' own mindsets, as they manage their ratings and other businesses
 - How they are being regulated, supervised
 - How they are being viewed by the industry (companies, NAIC)
 - 'Legacy' issues: prior rating 'mis-steps'

Knowing the Rating Agencies' Views 19

- Publications
 - Position/research papers
 - Methodologies
 - Company reports; particularly valuable are rating rationales (the most important factors behind ratings)
 - Press releases
 - News magazines (the rating agencies each have publishing operations in their organizations, which are separated from the rating divisions)
- Data
 - Statistical studies
 - Company statistics/Peer analyses
- Conferences; use these and other events as an opportunity to connect with the analysts!
- Analyst contact; people interested in learning about a company are able to contact the rating analysts covering that company

Knowing the Rating Agencies' Views (continued)

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- Websites:
 - www.ambest.com
 - www.standardandpoors.com
 - www.moodys.com
 - www.fitchratings.com
 - www.demotech.com
- There are numerous services that can be purchased from the rating agencies with a wide range of progressively more detailed/in-depth information

Factors That Affect Ratings



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Internal Factors Affecting Ratings 22

- Key indicators
- Industry issues/‘outlook’; know them well, respond to them positively
- Corporate, business strategy
- Management
- Financial profile

Internal Factors Affecting Ratings (continued)

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- Investment portfolio
- Distribution, products, marketing
- Enterprise risk management (ERM)
- Peer analysis, comparisons

External Factors Affecting Ratings 24

- The Economy, Financial Markets ... **most prominently interest rates**
- World Affairs
- Current Events
- Regulatory Framework
- Wild Cards: Uncertainty, Unpredictability, **Fear**

A Critical Factor Affecting Your Rating

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- **Your relationship with your analysts**
 - Do they view you as a reliable source of accurate information?
 - Do they understand your company's story, and is it consistent over time?
 - Do you make it easy for them to do their job?
 - **Do you understand their mindsets?**

Key Differences Between Life and Property/Casualty Insurance Companies

(and the analysis of them)

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- It starts with claims:
 - The pattern of life insurance claims is very predictable (if the pool of insureds is large enough)
 - The pattern of property and casualty claims can be very unpredictable, in part due to weather and the incidence of catastrophes
- Not knowing with great predictability the pattern of claims, a P&C company needs to have a greater amount of capital and liquidity than a life company, to ensure that claims can be paid on a timely basis
- The pricing of many P&C businesses is done on an a posteriori basis to make up for unexpectedly large losses, and it is also affected by whether the market is 'hard' or 'soft'.
- As such, the pattern of profitability over a number of years can be volatile.
- Given the need for strong capital and ample liquidity, a P&C company's investment strategy must be structured accordingly.

Differences Between Life and Property & Casualty Insurers

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Life

- Predictable claims (mortality)
- Lesser capital cushion required
- A priori pricing
- Conservative asset classes sought, supporting tight ALM

Property & Casualty

- Unpredictable claims (frequency, severity, catastrophes, tail risk)
- Significant capital required
- A posteriori pricing
- Equities often a key part of investment strategy

Factors Affecting Ratings: Key Indicators

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- Capital
- Earnings: Corporate, business lines
- Investments: Portfolio, results, **risks**
- Products: Pricing, features, sales, market share

A. M. Best: Insurance Company Reasons for Impairment

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AM Best Impairment Studies (1976-2010)		
Reasons for Impairment	Life / Health	P & C
Inadequate Pricing / Deficient Loss Reserves ¹	28.5%	40.2%
Rapid Growth ¹	14.3%	13.6%
Alleged Fraud	8.9%	7.8%
Investment Problems/Overstated Assets ²	15.2%	7.3%
Miscellaneous	8.2%	8.6%
Significant Change in Business ¹	4.6%	4.0%
Reinsurance Failure	1.9%	3.6%
Catastrophe Losses	--	7.1%
Affiliate Problems ³	18.4%	7.8%
Total	100%	100%

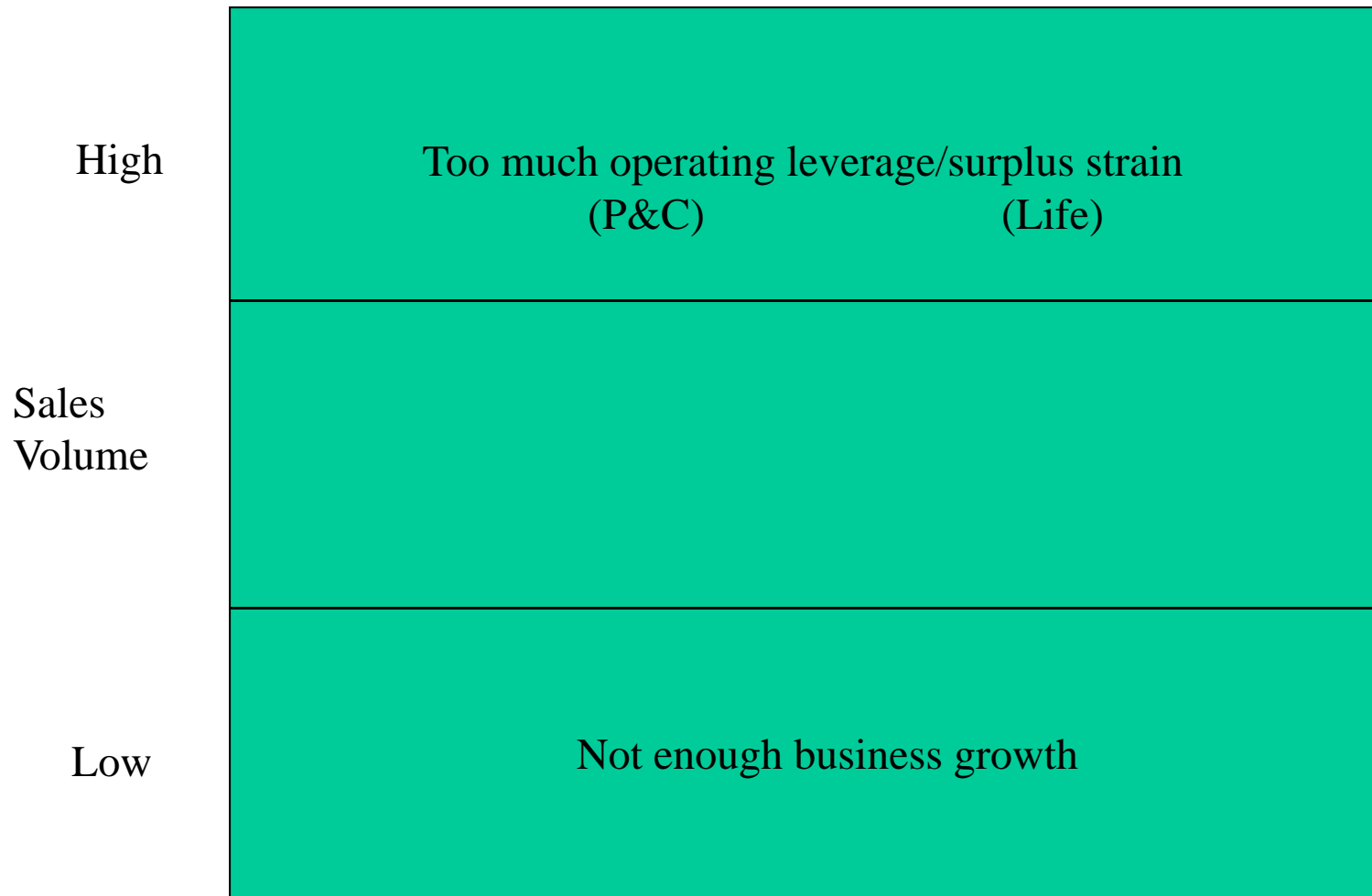
Qualitative credit underwriting focus areas:

1. Product lines
2. Investment / asset management activities
3. Parent and affiliate impact

Covers 70%-80% of reasons for impairment

The Impact on Insurers of Various Levels of Sales

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Corporate Strategy

(“Normal Times” ... until 2007)

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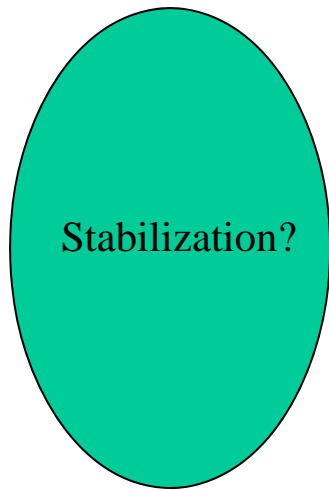
- Overview; summary of the company’s strategy and key drivers, goals
- Vision, Mission
- Effectiveness of strategy, consistency of corporate direction
- Corporate structure, organization
- Business relationships with other organizations
- Business lines, performance
- Competitive positioning
- Image/reputation/brand

“The future is impossible to foresee.
Why, the past is difficult to predict.”

Ancient proverb

Corporate Strategy ("Unusual Times")

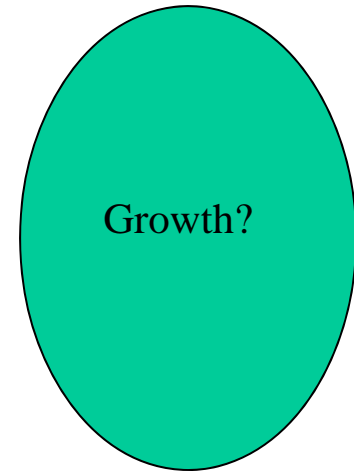
33



2009



2010 -



?

“Unusual Times” – a/k/a

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“The New Normal”

- All of us, including the rating agency analysts, have seen many things in the business world we have never experienced before:
 - Consumer sentiment reached an all time low (since it began being measured in 1968) → drastically suppressing sales, particularly in life; it has rebounded, but consumers are more wary in general
 - Investment grade bonds (the most conservative asset class, or so we thought), had lost 20% of their value; values have mostly recovered
 - Capital markets went into a ‘deep freeze’
 - Huge, formerly well respected financial institutions failed
 - Considerable problems for the real estate market, some of which still linger

Management

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- Major determinant of the company's success in driving its rating, and the rating agencies' views of the executive team will be in part subjective (they are *opinions*)
- Important perspectives
 - Experience, expertise, accomplishments, **confidence**; include biographies of key executives
 - Knowledge of the business, industry key
 - Ability to respond to the unforeseen critical ... 'thinking out of the box' (and it will be probed)

Management (continued)

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- Quality, talent, depth, succession planning
- Vision
- Strategy – how to compete successfully; importance of providing quality products and **advice** (being seen as trusted advisers)
- Corporate structure (mutual vs. stock – the thinking and issues continue to evolve), holding company/parent, subsidiaries, investors
- Risk management focus/mindset/culture; most importantly but definitely not the only areas:
 - Investments
 - Products

Management (continued)

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- Competitive advantages
 - Are your company's sustainable? Are they tangible?
 - In this environment, some of the elements that could give you an advantage over your competitors have changed
- Core competencies, expertise; how competent is your company relative to your competitors? Keep in mind that your analysts may well know your competitors better than you do.
- Image
- Execution/track record

- Result: Growing differential among companies (and ratings)

Financial Analysis

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- Overview
- Statutory, GAAP
 - Q: Which is more important? A: They are both important, as they each provide different perspectives.
 - Mutual vs public company results; what should mutual companies do if they don't have GAAP statements?
- Earnings
 - Drivers, eroders
 - Consistency/predictability vis a vis volatility
 - Extraordinary items
- Capital
 - Risk-adjusted, absolute
 - 'Quality' ... it's more than just a number!
 - Drivers, eroders
- Projections
 - Track record (credibility)
 - Assumptions

Financial Analysis (continued)

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- Product pricing (and relative to actual results)
 - Assumptions
 - **Powerful** predictor of success
 - Corporate line
- Advanced financial analysis
 - Methodologies: DFA (Dynamic Financial Analysis), EVA (Economic Value Added), RAROC (Risk-adjusted Return on Capital), EC (Economic Capital), PBR (Principals-based Reserves)
 - Their 'role' in the analytical process
- Excess capital
- Sources of company financial information
 - Public
 - Non-public

Financial Management: Favorable Attributes

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- Flexibility; access to sources of capital, liquidity
- Consistency/stability of results
- Expense control; cost structure – fixed vs. variable
- Analytical detail
- Strong connections to, integration with business/product line management
- Modeling/projection capabilities
- Discipline:
 - Management
 - Decision-making

Financial Analysis:

Non-Financial Statement Data

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What information can you present that demonstrates mastery of and success in your business?

- Sales: By product, distribution channel; annual/recurring, single/'dump-in'; growth trends
- Producer counts (by channel), productivity, credentials, longevity (ie LIMRA 4 year retention rate – life insurance producers)
- Mortality, morbidity, loss/combined ratios
- Persistency, business retention
- Expense ratios, unit costs
- Customer satisfaction
- Market share ... **if** priced correctly

Investment Analysis

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- Overview
- Key perspectives in the analysis
 - Asset classes
 - Asset quality
 - Asset/Liability Management
 - Liquidity
 - Marketplace conditions
 - Returns
 - Capital base
 - Risk management
 - Scenario testing (and very negative scenarios will be investigated by the rating agencies)
- The rating agencies are extremely concerned about companies' investments, and have a very conservative (and even fearful) view

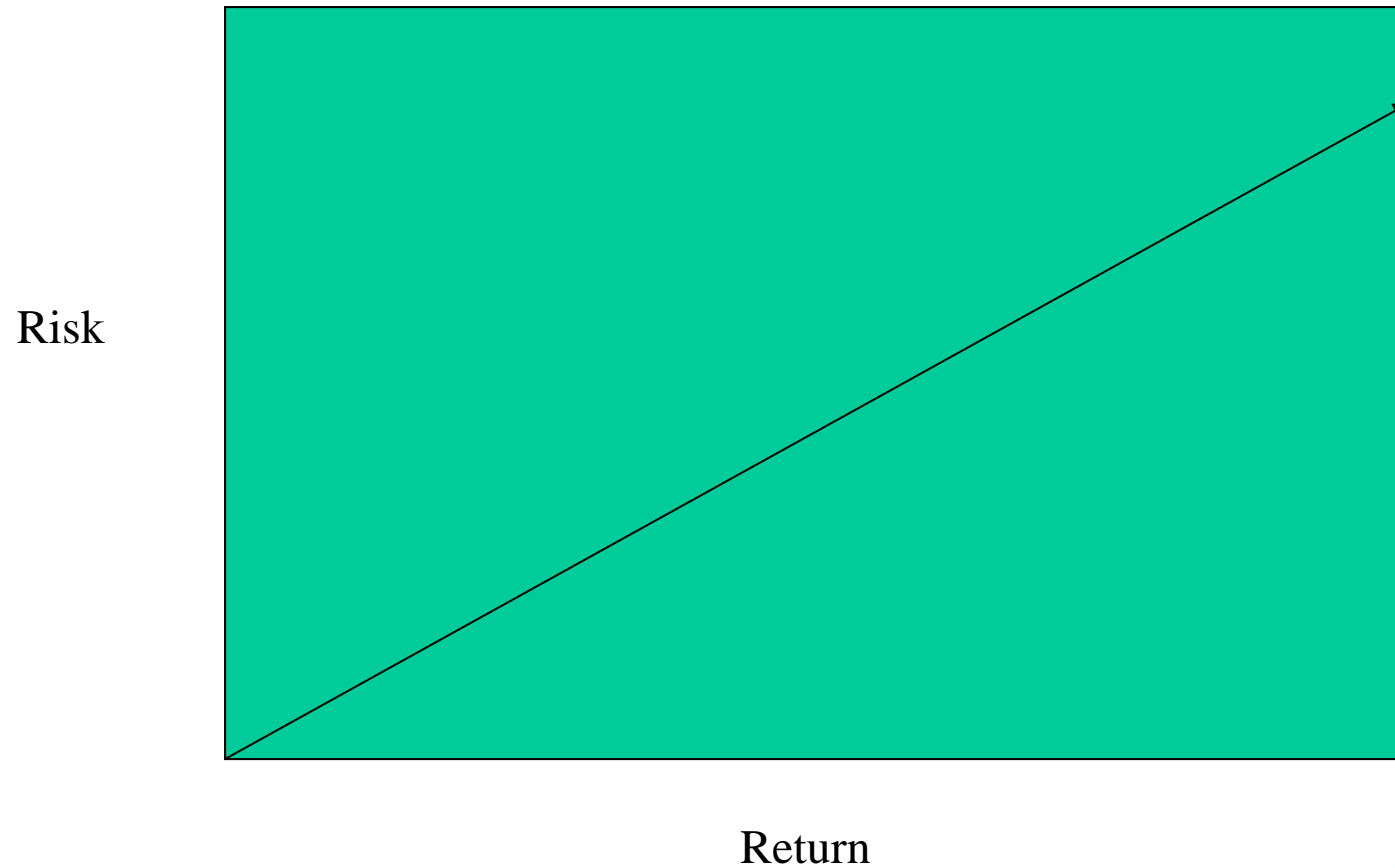
Investment Perspectives, Questions

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- What investment strategies are viewed favorably by the rating agencies at this point in time? Q: Are there any? Unfavorably?
- What is ‘Investment Grade’?
- How risky are various classes?
- Risk management, and the Efficient Frontier; risk tolerance, thresholds
- Stress testing
 - By your company’s investment team
 - By the rating agencies

The Efficient Frontier

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Distribution, Products, Marketing 45

- Distribution:
 - Critical mass
 - Productivity
 - Longevity
 - Loyalty
 - Trusted advisors
 - Experience, credentials
 - Channels, management of channel conflict
- Products:
 - Breadth, suitability of portfolio
 - Proper pricing
 - Marketability vs. Risk Management ... product features
 - Suitability
- Marketing
 - Customer focus, reach
 - Positive company image projected
 - Proper sales practices
 - New business generation

Enterprise Risk Management (ERM) 46

- Why risk management is important
- Risk management philosophy
- What the rating agencies are looking for in terms of companies' ERM processes
 - Large companies
 - Smaller companies
- Risk management failures

Enterprise Risk Management (ERM) 47

- Key themes
 - Integration into strategy, operations, finance, investments, decision making, culture ... everything you are doing (not a 'silo'!)
 - Major/tail risks; exposure to (quantification/qualification of) impacts
 - Risk thresholds/tolerances (often overstated); events that breach them
 - Financial analysis, metrics
 - Investment strategy, management
 - Governance, responsibilities, communications, culture
- Closure objective: Demonstrate to the rating agencies that you are fully aware of your risks (and the potential magnitude of their impact), and are managing your company accordingly, and effectively!

ERM Exercise:

Tolerances/Thresholds

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- Tolerance - how much risk impact (in what measures, over what time frame) can you withstand in the course of running your company?
- Threshold - how much risk impact can you withstand before your stakeholders act in materially unfavorable ways?
- If the ratings agencies think you might be enduring too much risk impact or if you don't know how much you are exposed to, now or in the rating horizon, they might downgrade you

ERM Exercise:

Tolerances/Thresholds

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Questions to answer:

- 1) What events can cause material risk impact?
- 2) How much risk impact can your company withstand, in various aspects of your operations?
- 3) What risk thresholds does your company have ... at what points will your stakeholders act in materially unfavorable ways? Which stakeholders' unfavorable reaction could hurt your company the most?
- 4) What do you need to change?

Peer Analysis

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- Ratings are opinions, and all companies' ratings are calibrated relative to each others
- Different business lines are 'rated' differently according to their characteristics; leading competitors in your business lines, particularly those with well publicized problems, may well be the 'baselines' by which you are evaluated
- Rating peers vs. competitors
- Factors in the peer comparison
 - Quantitative
 - Qualitative/subjective
 - Organization (structure – mutual vs. stock), parent, subsidiaries
 - Size

Peer Analysis Thought Process 51

- Identify rating peers for your organization (they may or may not be competitors of yours). Attributes:
 - Size (assets, capital)
 - Organization (structure, subsidiaries, parent)
 - Lines of Businesses
- Identify insurance organizations that you feel you are on par with, but have higher ratings than yours, and that you feel you are superior to that have the same ratings as yours ... what factors explain the discrepancy? Capital is the most likely (but not only) answer.
- Be careful! In any discussions with the rating agencies about your peers and how you stack up relative to them, expect that the rating agencies know your peers better than you do!

Group Ratings

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Question: How close to the rating of the parent company will the rating of the subsidiary be?

Considerations:

- The organization
 - Business focus
 - Financial profile (everything considered)
 - Role of the insurance subsidiary in the organization: Core, strategic, financial, none of these
- Capital support, guarantees
- Notching process
 - 'Algorithm' for determining notches
 - Range of notches: None (same rating as parent) to 'Rating the subsidiary as a stand-alone entity' (could be any number of notches)

Start-up Ratings

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- Key factors:
 - The company or investors behind it
 - The purpose of the new entity
 - Executives running it, their experience/ track record
 - Business plan
 - Capital: Amount, guarantees
- The thought process behind the determining the rating given its capital level (or “how can a new entity be rated if it has no operating experience?”)
- Engaging a rating agency to obtain a rating for a new entity

Developing an Effective Presentation for Your Rating Meeting

Developing Your Presentation 55

Clear, positive and transparent articulation of your story:

- The organization
- Management
- Strategy: How, and how well do you compete?
- Businesses
- Financials
- Investments

Developing Your Presentation

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(continued)

Clear, positive and transparent articulation of your story:

- Enterprise risk management
- Operations (IT, HR, Service/Administration)
- Legal, regulatory, compliance
- Peer analysis
- Rebuttals of rating agency concerns/
negatives
- Data

Formatting Your Presentation 57

- Power point format
- Data, data binder
- Answering the rating agency's concerns/issues and agenda items
 - Negatives reported about the company (rationale, press releases, dialogue with the analyst)
 - Meeting outline sent by the analyst, with rating agency concerns

Rating Agency's Five Observations:

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Negative Industry Outlook

- 1) Credit losses will be higher than expected
- 2) Equity markets are declining and volatility is rising
- 3) Important revenue sources decline as assets under management drop
- 4) Secondary effects of equity declines occur
- 5) Financial flexibility is more limited

Rating Agency's Observation #1

Industry Credit Losses to be Higher than Expected

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Company's Position:

- Company executes an investment strategy that calls for high quality bonds comprising the vast majority of assets. Our bond portfolio was 99% investment grade as of the most recent year end
- Our commercial mortgage portfolio has had no delinquencies nor foreclosures over the last five years, and our better-than-industry experience continues

Having A Successful Rating Meeting

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- Tone
- Preparedness:
 - Your story
 - Knowing the external environment
 - Responding to the rating agency's questions, issues
- Troublesome topics (be prepared to address, but usually it is better not to proactively address them)
 - Weaknesses/threats
 - Mistakes made, decisions that didn't work
 - Powerful competitors' strategies

Preparing Your Analyst To Go To Rating Committee

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- Understand the composition of the committee, what they know about your company
- Enabling your analyst(s) to present your company's story in the best possible light ...educate them! If your analyst is not your advocate, you don't have one!
- Knowing where you stand prior to being presented to the committee
- Companies don't spend enough time doing this, and many don't realize they can do it

After the Rating
Committee Meets:

Optimizing Your
Rating Prospects

Rating Scales

A. M. Best		S&P		Moody's	Fitch	Demotech*
Investment Grade						
FSR	ICR					
A++	aaa	AAA	AAA	AAA	AAA	A"
A++	aa+	AA+	AA1	AA1	AA+	A'
A+	aa	AA	AA2	AA2	AA	A'
A+	aa-	AA-	AA3	AA3	AA-	A'
A	a+	A+	A1	A1	A+	A
A	a	A	A2	A2	A	A
A-	a-	A-	A3	A3	A-	n/a
B++	bbb+	BBB+	Baa1	Baa1	BBB+	S
B++	bbb	BBB	Baa2	Baa2	BBB	S
B+	bbb-	BBB-	Baa3	Baa3	BBB-	S
Below Investment Grade						
B	bb+	BB+	Ba1	Ba1	BB+	M
B++	bb	BB	Ba2	Ba2	BB	M
B-	bb-	BB-	Ba3	Ba3	BB-	M
C++	b+	B+	B1	B1	B+	L
C++	b	B	B2	B2	B	L
C+	b-	B-	B3	B3	B-	L
C	ccc+	CCC+	Caa1	Caa1	CCC+	L
C	ccc	CCC	Caa2	Caa2	CCC	L
C-	ccc-	CCC-	Caa3	Caa3	CCC-	L
C-	cc	CC	Ca	Ca	CC	L
D	c	C	C	C	C	
E	d	D			D	
F	d					
*Investment Grade - Based upon State of Florida 690-144.007 Credit for Reinsurance from Certified Reinsurers (through FSR of A).						



Rating Modifiers

(they vary by agency)

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- Outlook/credit watch
- Under review

- Group ratings
- Pooled ratings
- Reinsured ratings
- Public data ratings

Rating Modifiers - Discussion 65

Outlook/Credit Watch (positive/negative/stable)

- Meaning
 - Indicates a **trend** in performance that has a material probability (1/3) that the rating will be moved in one to two years; in this environment it is more likely that a negative outlook/credit watch will lead to a downgrade than a positive outlook/credit watch will lead to an upgrade
- Action plans
 - **Negative: Demonstrate/prove to your analyst(s) that the trends comprising their negative view of your company have been reversed (or that they weren't material in the first place)**
 - Positive: The most common scenario is that your company has been on a positive outlook/credit watch for more than two years, you have fulfilled all of the 'requirements' your analyst told you about for your rating to be upgraded, but now they have other general concerns about the negative operating environment.
 - Stable: No change in your rating is foreseen over the next couple of years

Rating Modifiers - Discussion

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Under Review (positive/negative/developing)

- Background
 - Your company has announced that it either has entered or intends to enter a transaction of some sort (usually an acquisition or divestiture, sometimes a financial transaction) and the rating agency needs more time to evaluate the rating impact or is waiting to see if the transaction actually takes place
 - You should have engaged the rating agencies to explain the transaction, its elements and its benefits during the planning phase, and to seek their view of what the rating impact would be ('indicative rating')
- Action plans
 - Negative: Demonstrate/prove to your analyst(s) that the rating agency's negative view of the transaction is ill-founded; has their opinion changed since you first told them about the transaction, or did you disagree with their earlier view?
 - Positive: Complete the transaction!
 - Developing: Very rare, as it is most uncommon for a rating agency not to know directionally what the implications are

Rating Agency Public Communications About Your Company

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- Company reports
- Press releases
- Data

- Fact checking, removal of confidential information – your changes will be accepted
- Strive to make them as positive as possible! The analysts will usually stick to their observations (opinions) that support their rating decision, and will accept some of your more innocuous edits
- **CAUTION:** Your analyst may not be a good writer

The Rating Appeal Process

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- **Every downgrade and negative outlook should be challenged!**
- Request an appeal immediately following notification of a downgrade or an unexpected negative outlook; your analysts will explain the process to you
- Have new, material information if at all possible; be prepared to discuss analysis you believe to be flawed ... a common theme is that the analyst will identify an issue of concern, but exaggerate the negative impact. A consultant's advice/analysis is helpful third party testimony.

The Rating Appeal Rebuttal: Role Play

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“We have taken your company to committee, and the decision that was made was to downgrade your company. The reasons the committee cited were:

- Your capital is not as strong as that of your rating peers
- Your earnings are volatile
- Your competitors are gaining market share at your expense
- Your competitive position is not sustainable
- We are concerned about the losses in your investment portfolio
- You have potentially significant risks in your business
- There is regulatory uncertainty that may well impact your business

How should you respond to these points in your appeal? You will need to have new information.

Frequently Asked Questions (FAQs)

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- When do rating agencies rate companies?
- When should I talk to my analyst?
- What should we do if a rating agency doesn't like a particular aspect of what we are doing (business line, asset class, type of transaction)?
- What should we do if our analyst isn't giving us what we consider to be a fair review, doesn't understand something we are doing or are overreacting to it, or worse assign us a rating what we believe is inappropriate?

Summary

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- Understand everything you can about the rating agencies'/analysts' views, and what underlies their thinking (and if there is something you don't understand or agree with, ASK!)
- Foster the most positive and constructive rapport possible with your analysts
- Take the feedback you get in a constructive manner (even though you may well not agree with all of it)
- Help your company be as successful as it can be