

# Insurer Financial Strength Rating Definitions

**A** Standard & Poor's Insurer Financial Strength Rating is a current opinion of the financial security characteristics of an insurance organization with respect to its ability to pay under its insurance policies and contracts in accordance with their terms. This opinion is not specific to any particular policy or contract, nor does it address the suitability of a particular policy or contract for a specific purpose or purchaser. Furthermore, the opinion does not take into account deductibles, surrender or cancellation penalties, timeliness of payment, nor the likelihood of the use of a defense such as fraud to deny claims. For organizations with cross-border or multinational operations, including those conducted by subsidiaries or branch offices, the ratings do not take into account potential that may exist for foreign exchange restrictions to prevent financial obligations from being met.

Insurer Financial Strength Ratings are based on information furnished by rated organizations or obtained by Standard & Poor's from other sources it considers reliable. Standard & Poor's does not perform an audit in connection with any rating and may on occasion rely on unaudited financial information. Ratings may be changed, suspended, or withdrawn as a result of changes in, or unavailability of such information or based on other circumstances.

Insurer Financial Strength Ratings do not refer to an organization's ability to meet nonpolicy (i.e. debt) obligations. Assignment of ratings to debt issued by insurers or to debt issues that are fully or partially supported by insurance policies, contracts, or guarantees is a separate process from the determination of Insurer Financial Strength Ratings, and follows procedures consistent with issue credit rating definitions and practices. Insurer Financial Strength Ratings are not a recommendation to purchase or discontinue any policy or contract issued by an insurer or to buy, hold, or sell any security issued by an insurer. A rating is not a guaranty of an insurer's financial strength or security.

## **Insurer Financial Strength Ratings**

An insurer rated 'BBB' or higher is regarded as having financial security characteristics that outweigh any vulnerabilities, and is highly likely to have the ability to meet financial commitments.

### **AAA**

An insurer rated 'AAA' has EXTREMELY STRONG financial security characteristics. 'AAA' is the highest Insurer Financial Strength Rating assigned by Standard & Poor's.

### **AA**

An insurer rated 'AA' has VERY STRONG financial security characteristics, differing only slightly from those rated higher.

### **A**

An insurer rated 'A' has STRONG 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 GOOD financial security characteristics, but is more likely to be affected by adverse business conditions than are higher rated insurers.

*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 MARGINAL 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 WEAK financial security characteristics. Adverse business conditions will likely impair its ability to meet financial commitments.

## **CCC**

An insurer rated 'CCC' has VERY WEAK financial security characteristics, and is dependent on favorable business conditions to meet financial commitments.

## **CC**

An insurer rated 'CC' has EXTREMELY WEAK financial security characteristics and is likely not to meet some of its financial commitments.

## **R**

An insurer rated 'R' has experienced a REGULATORY ACTION regarding solvency. The rating does not apply to insurers subject only to nonfinancial actions such as market conduct violations.

## **NR**

An insurer designated 'NR' is NOT RATED, which implies no opinion about the insurer's financial security.

**Plus (+) or minus (-) signs** following ratings from 'AA' to 'CCC' show relative standing within the major rating categories.

**CreditWatch** Ratings may be placed on CreditWatch when an event or deviation from an expected trend has occurred or is expected, when this event or deviation increases the probability of a rating action, and when additional information is necessary to take a rating action. For example, an issue typically is placed under such surveillance as the result of a merger, recapitalization, regulatory action, or unanticipated operating development. Such rating reviews are completed as soon as Standard & Poor's has received the necessary information—normally within 90 days—unless the outcome of a specific event is pending. In situations where ratings remain on CreditWatch for more than 90 days (e.g., for mergers and acquisitions) or when material events or deviations from trends occur, Standard & Poor's will publish interim updates

to identify its most current assessment of the situation. CreditWatch designations may be positive, which indicates a rating may be raised, or negative, which indicates a rating may be lowered. (A developing designation is used for unusual situations in which future events are so unclear that the rating could be raised or lowered, such as when a company discloses it is in merger discussions with multiple suitors.) It bears emphasizing that a CreditWatch listing does not imply that any potential change would be only one notch; it could be one notch or several notches, depending on the situation.

**Outlook** Similar to CreditWatch, an outlook assesses potential for change and the likely direction of the rating over the intermediate term. In contrast to CreditWatch, an outlook is assigned as an ongoing component of all long-term ratings, where appropriate. Outlooks have a longer time horizon than CreditWatch listings and incorporate trends or risks with less-certain implications for credit quality. The time frame for an outlook generally is up to two years.

A positive outlook indicates a rating may be raised, and a negative outlook indicates a rating may be lowered. A stable outlook is assigned when ratings are not likely to be changed. A developing outlook means ratings may be raised or lowered. Outlooks should not be confused with expected stability of the issuer's financial or economic performance.

A positive or negative outlook is not necessarily a precursor of a rating change or a CreditWatch listing. Conversely, rating changes can occur when the issuer has a stable outlook.

**'pi' Ratings.** Ratings with a 'pi' subscript are based on an analysis of an issuer's published financial information, as well as additional information in the public domain. They do not, however, reflect in-depth meetings with an issuer's management and are therefore based on less-comprehensive information than ratings without a 'pi' subscript. Ratings with a 'pi' subscript are reviewed annually based on a new year's financial statements, but may be reviewed on an interim basis if a major event occurs that may affect the issuer's credit quality.

