

Rating of Captives

– An A.M. Best Perspective

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1. A.M. Best and its Methodology
2. Captives Rated by A.M. Best
3. Captives in Japan

1. A.M. Best and Its Methodology

Best's Credit Rating - BCR



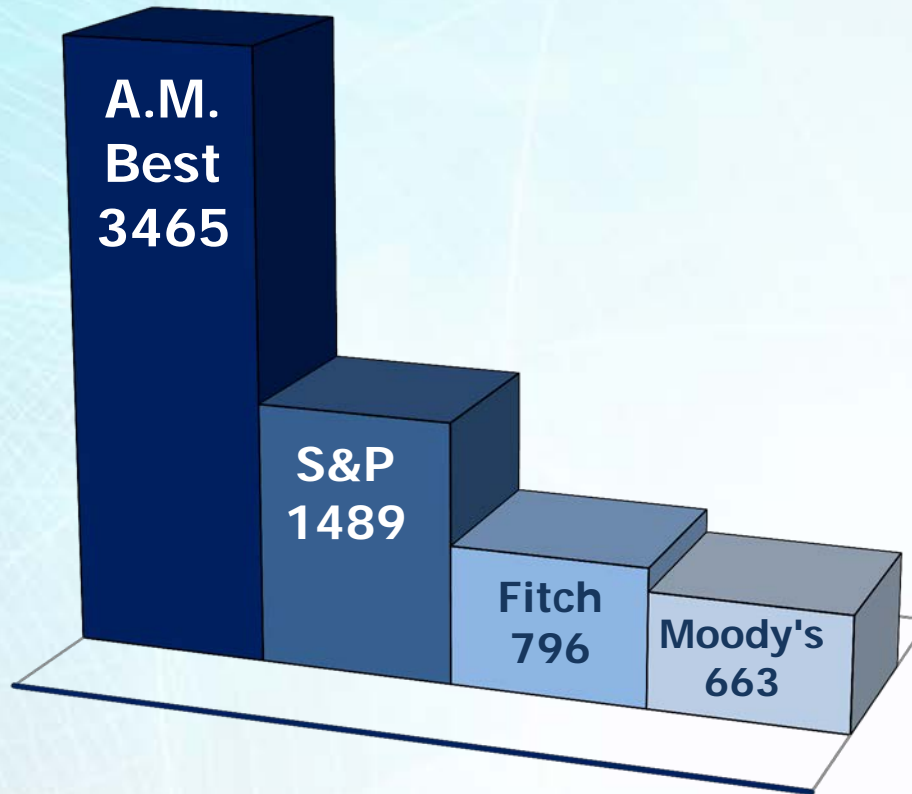
A Best's Credit Rating (BCR) is a forward-looking independent and objective opinion regarding an insurer's, issuer's or financial obligation's relative creditworthiness.

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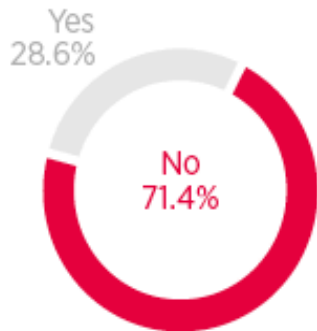
Source: A.M. Best, Moody's and Fitch's websites and S&P's Global Credit Portal. Data as of June 2016. Does not include PD ratings, NR ratings, "National" ratings, rated companies who are branches of a parent (Canada, Japan, New Zealand and U.S.), or companies who are under regulatory supervision or in liquidation.

A Survey Revealed by a 3rd Party.....

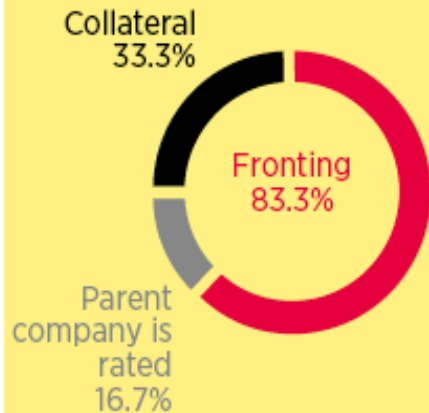


READER SURVEY Source: Captive Review Readers' Survey 2014

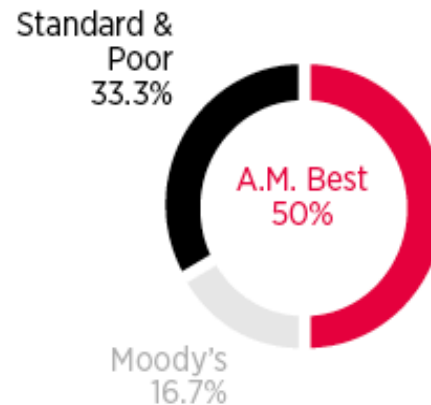
Does your captive have a rating?



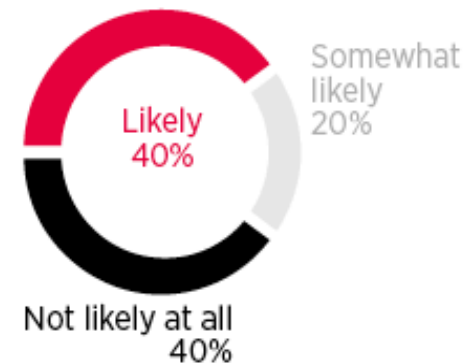
Why did you get your captive rated?



Which rating agency assessed your captive?



How likely is it that you will get your captive rated in the next five years?



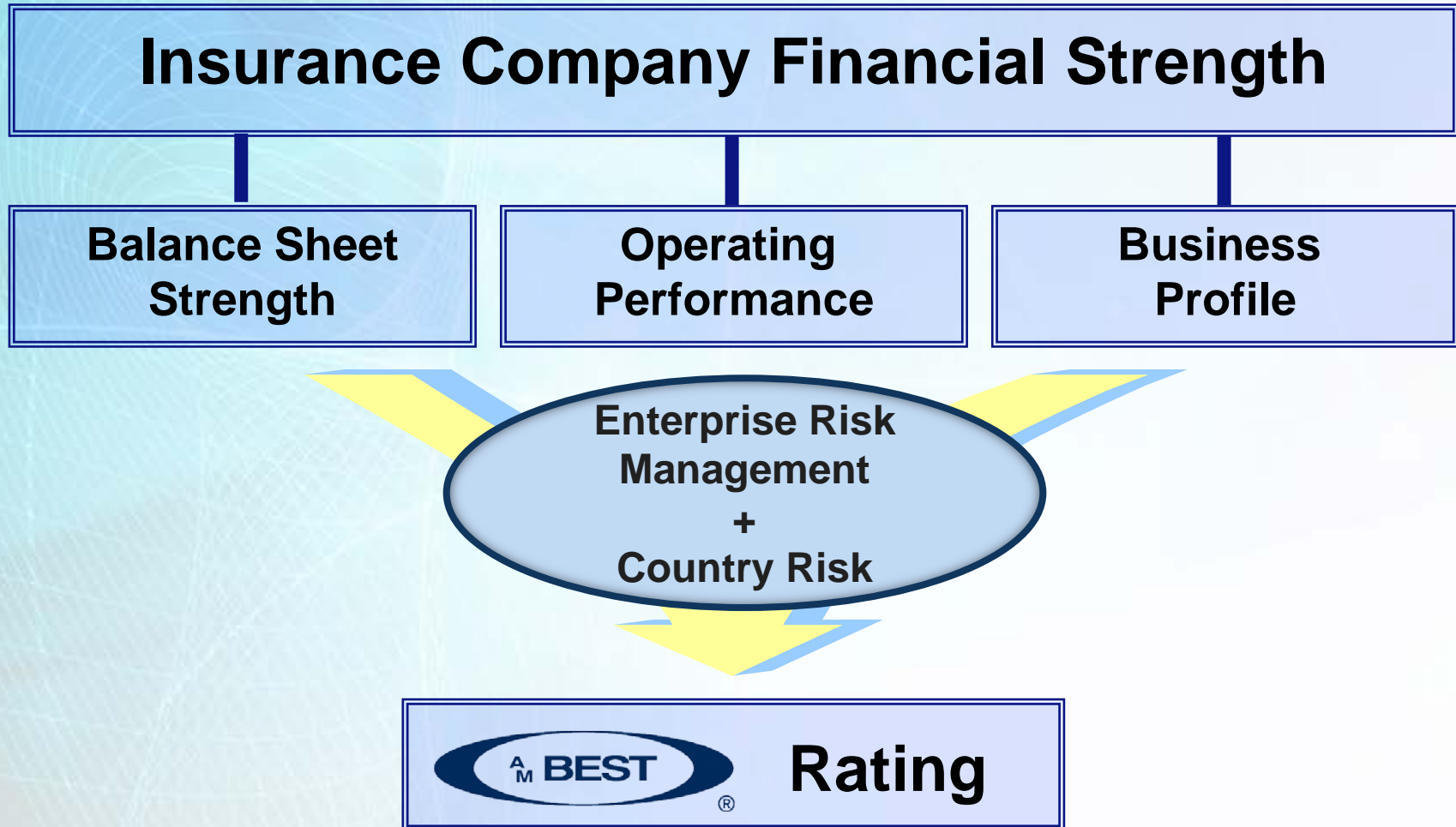
Objectives of Captive Ratings



Typically to enhance the captive's interface with the conventional market, both through fronting and reinsurance, and to assist in meeting the requirements of regulators and business partners

A.M. Best rating methodology

– key rating components



General features of A.M. Best's captive rating methodology



- A.M. Best considers captives, protected-cells and other alternative risk transfer structures as a distinct segment for analytical purposes:
 - Stand-alone assessment as if captives were commercial (re)insurance vehicles
 - Evaluation of the parent and relationship with the captive
 - Lines of business and domiciliation
 - Quality of captive management
 - Control of assets
 - Independence and self generation of capital
 - Dividend policy
 - Loans back to the parent
- A.M. Best's captive ratings are not subject to any parental rating ceiling

The Rating of Captives: Methodology



Fundamental discussions

- Captives:
 - Business strategy and production
 - Organisational structure
 - Underwriting, claims and loss reserving
 - Financial review and investments
 - Capital structure
 - Enterprise Risk Management, including preparations for Solvency II
 - Reinsurance programmes

The Rating of Captives: Methodology



Fundamental discussions

- Parent:
 - Financial flexibility of parent or group
 - Management effectiveness and strategy
 - Importance of (re)insurance operations within the group
 - Strategy for captive
 - Integration of captive within the group

Why A.M. Best?



- A.M. Best's Designated Methodology for Captives
- A.M. Best DOES NOT take the Sovereign Rating as a “cap” of the rated entity
- A.M. Best's captive rating is NOT subject to parental rating ceiling
- A.M. Best's ability of rating a start-up

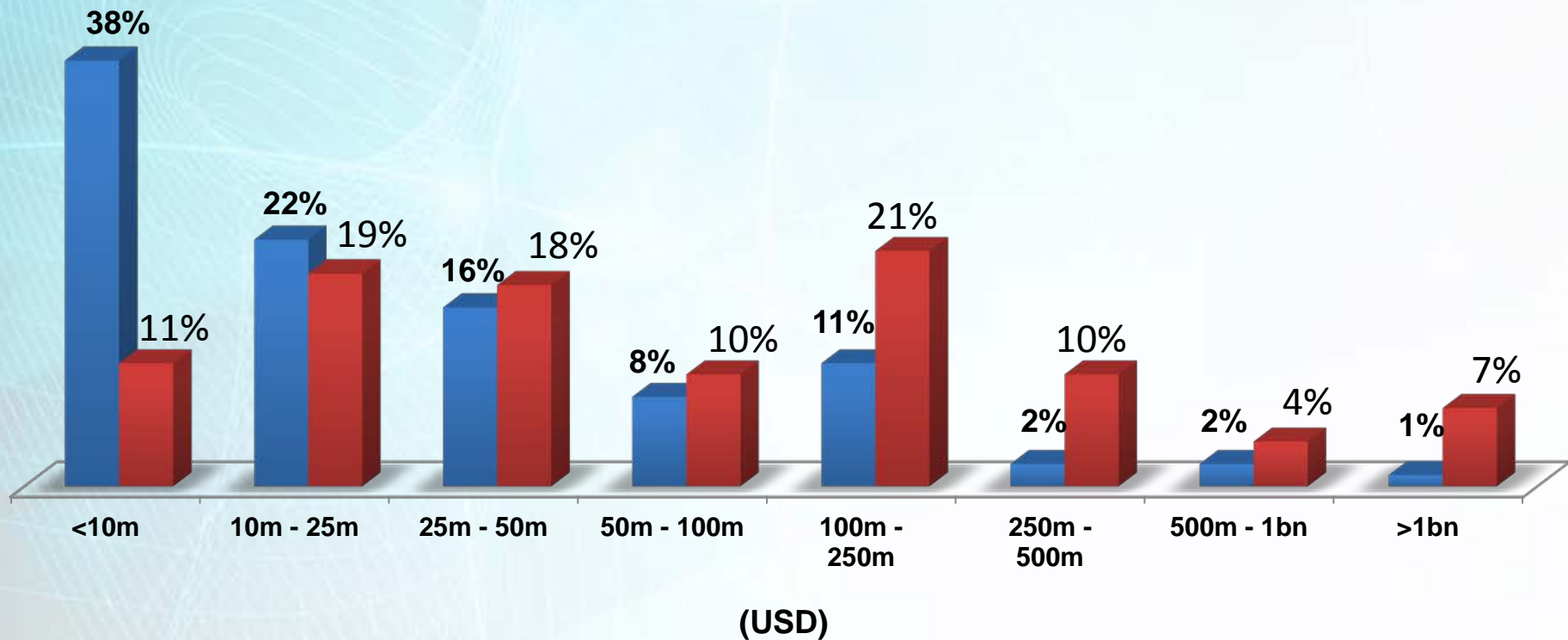
2. Captives Rated by A.M. Best

Is size important?



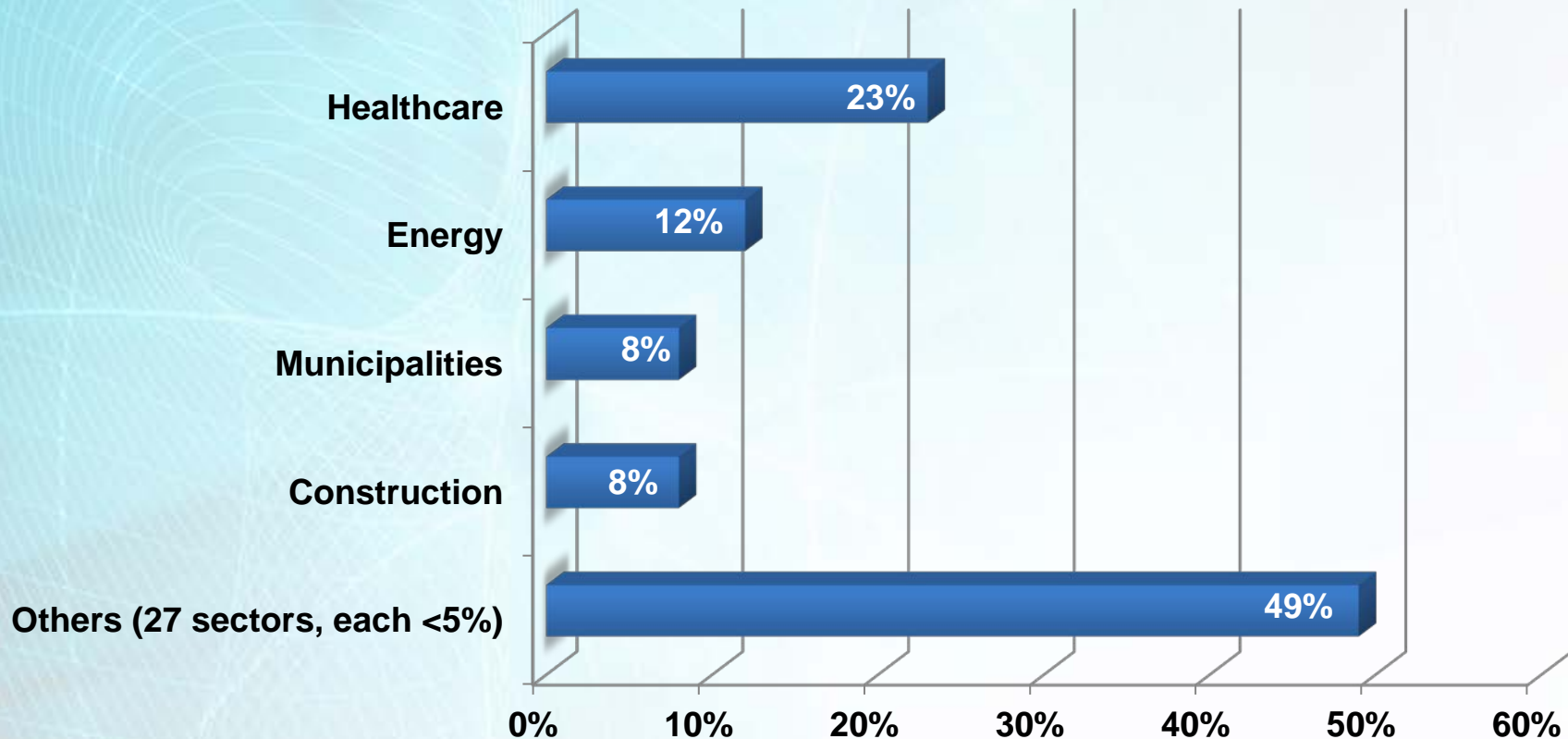
Comparison of Captives Rated by A.M. Best

■ Net Premium Written ■ Capital & Surplus



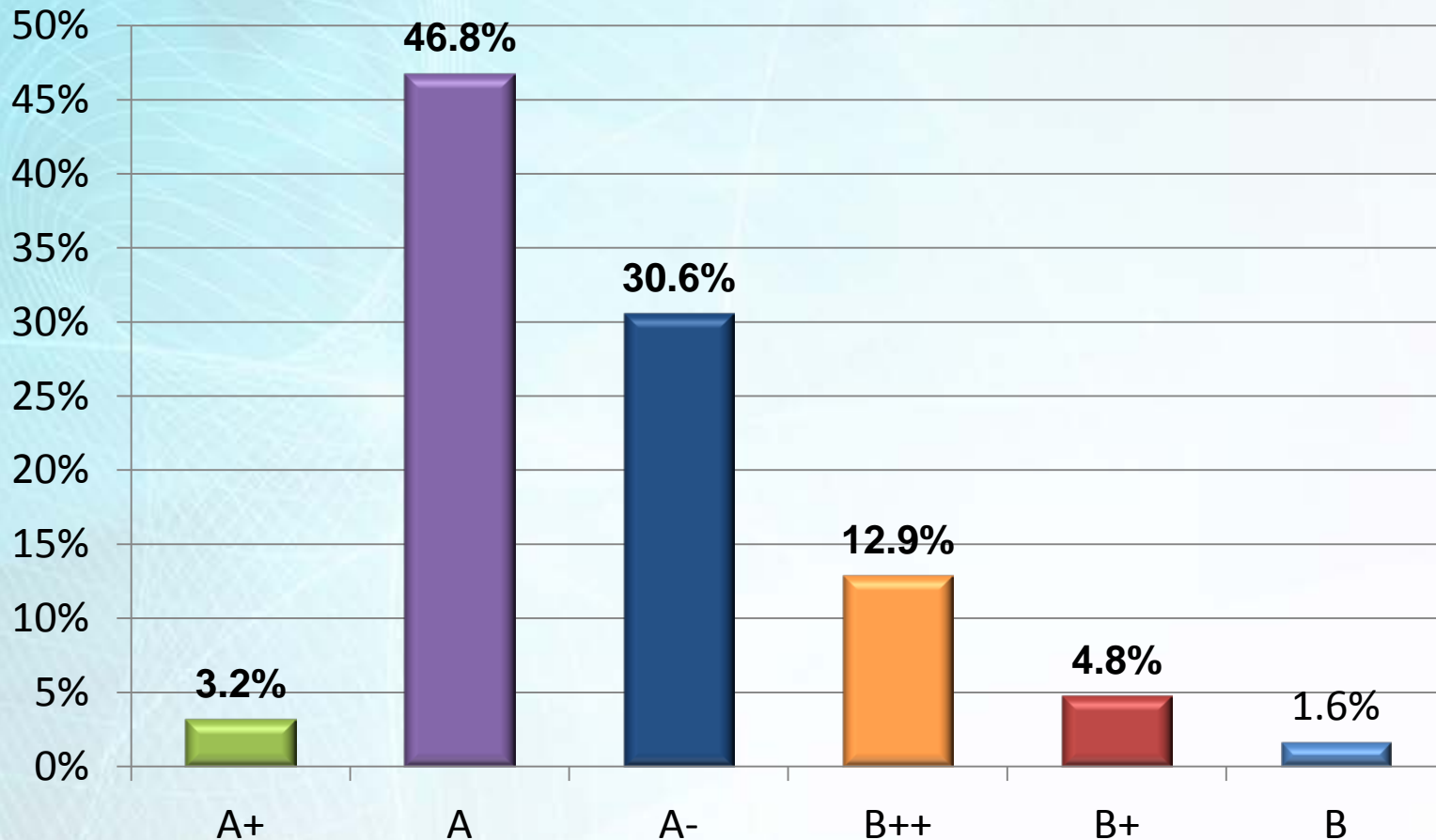
Sources: BestLinkSM Best's Statement File – Global, A.M. Best research.

Rated Captives by Industry Sector



Sources: BestLink – Best's Statement File – Global, A.M. Best research.

Global Single-Parent Captives – Best's Rating Distribution, 2014



Sources: Best's Statement File – Global, A.M. Best research.

Does the parental rating impose a cap?



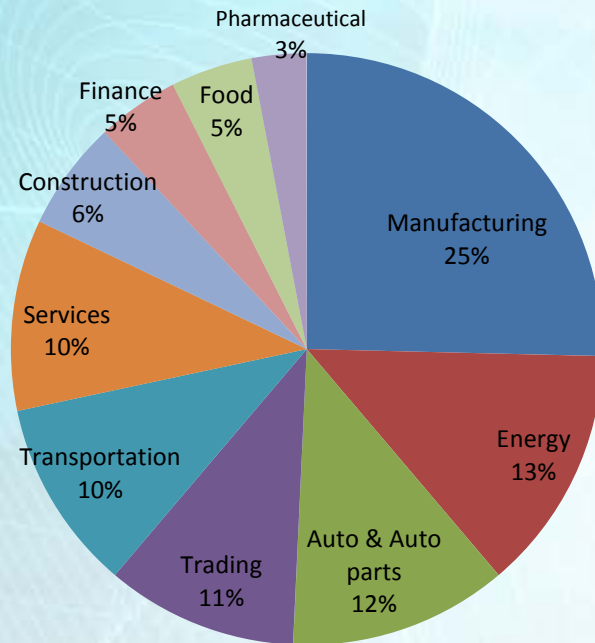
Parent	Country	Rating & Agency	Captive	Country	A.M. Best Ratings		Notching Differential between Parental Rating and A.M. Best ICR
					FSR	ICR	
AES Corp	USA	BB (S&P)	AES Global Insurance Company	USA (VT)	B+	bbb-	2
Deutsche Lufthansa-AG	Germany	BBB- (S&P)	Delvag Luftfahrtversicherung	Germany	A	a	4
Marubeni Corp	Japan	BBB (S&P)	Marble Reinsurance Corporation	Micronesia	A-	a-	2
National Grid Plc	UK	BBB (Fitch)	National Grid Insurance Company	Isle of Man	A	a	3
Telefonica SA	Spain	BBB (Fitch)	Casiopea Re	Luxembourg	A-	a-	2

Sources: Best's Statement File – Global, A.M. Best research.

Ratings as of 23 Sep 2016

3. Captives in Japan

Japanese Captives



(Source: Mainichi Newspapers, A.M. Best data & research)

- The number of captives owned by Japanese companies is estimated at 100 out of about 6,000 worldwide.
- Single-parent structures remain the predominant form for Japanese captives.
- Japanese parent companies' businesses are well diversified, with manufacturing and energy businesses relatively active in operating captive.

Performance of the Rated Single Parent Captives

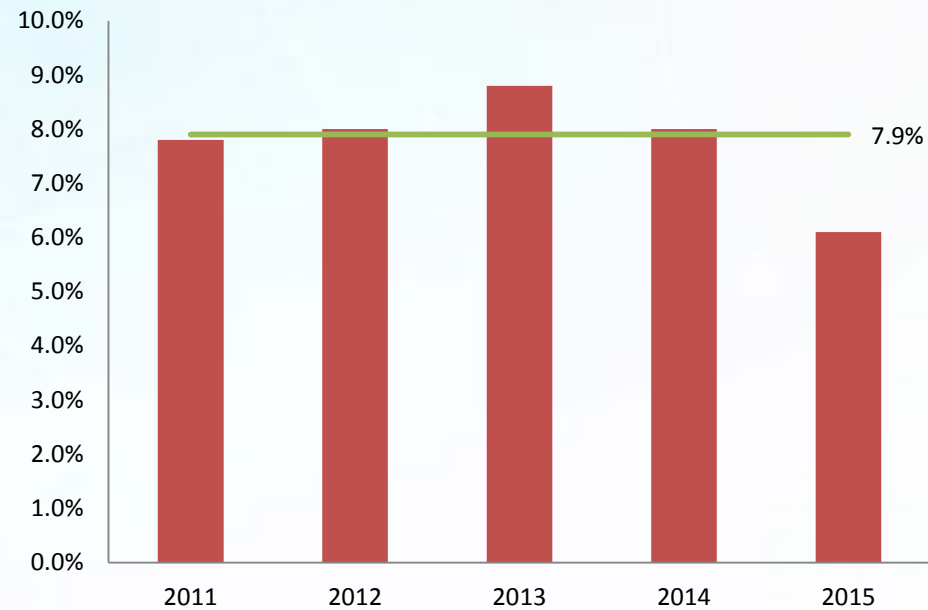


Combined ratio of Single Parent Captives (aggregate)



(Source: A.M. Best Research)

RoE of Single Parent Captives (aggregate)



Q & A

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