

ARC Ratings has published its new Insurer Financial Strength Rating Criteria

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MAIDSTONE, KENT, UNITED KINGDOM, January 12, 2021 /EINPresswire.com/ -- Insurer Financial Strength Ratings' Criteria

ARC Ratings has published its new Insurer Financial Strength Rating Criteria. This report had previously been published in draft form for public consultation however no comments were received. This methodology can be accessed at www.arcratings.com.



The Criteria set out a framework for assigning an 'Insurer Financial Strength Rating' (IFSR), which will be used by ARC to rate insurance companies. The Criteria are applicable across all insurance sectors, such as Life, Non-Life, Multiline, Captive or Reinsurance, as well as to insurance groups and their operating holding companies.

The IFSR is a rating assigned specifically to insurance companies. It measures the ability of the insurance company to fulfil its insurance claims and policyholder obligations in the medium-long term, which allows ARC to perform its analysis on a going concern basis. The IFSR is the result of four key analytical pillars that ARC believes represent the main drivers that reflect an insurance company's credit profile. The first two pillars, Financial Profile and Business Profile, will result in a Baseline Rating (BR). This will assess the balance sheet strength and the business model and performance of the analysed entity in its market. The next two pillars, Governance and Risk Management and Other Adjustments, will potentially result in notching adjustments to the BR, therefore allowing a separation between what is purely performance (BR) and other qualitative factors related to governance, country risk and support (notching adjustments).

The IFSR represents the anchor rating that ARC will use to assign any other rating to the

insurance entity or group as part of the rating process, including issuer long-term and short-term credit ratings, as well as ratings to debt obligations (senior, subordinated or hybrid issuances).

ARC only assigns International Scale ratings, which incorporate all sovereign risk and currency conversion issues, and are thus directly comparable across all countries. The latter are generally required by insurers and reinsurers that issue policies in several different countries and currency denominations. Certain markets may be characterised by inherent limitations that impose a country ceiling on the ratings that can be accorded to entities that operate in these markets.

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