

Request for comments

Review cycle for the Methodology of assigning reliability ratings to insurance companies – Insurance methodology review cycle - December 2017

Rating-Agentur Expert RA GmbH invites market participants to provide comments on the proposed changes in the Methodology of assigning reliability ratings to insurance companies (hereinafter – the Methodology) and changes in disclosure policy of the Agency with regard to the public version of the Methodology. During the methodological committee meeting held on the 19th of December 2017 a package of changes in the Methodology, as well as disclosure policy change of the public version of the Methodology were discussed and approved by the independent members of the Advisory board, which will lead to the following changes in the public version of the Methodology:

- 1) **We propose to include the Insurance Sector Risk (ISR) score for the adjustment in order to obtain the final reliability rating according to the international scale.**

Rationale:

The actual Methodology is mostly focused on the idiosyncratic risk of the entity. Therefore, based on the current assessment we have identified that our ratings could be inappropriately high in countries with moderate to high systematic risk (e.g. Russia). In order to include systematic risks to our analysis, we incorporate Insurance Sector Risk (ISR) to our rating model.

- 2) **We propose to change/remove factors of the section 5.1.1 *Size factor and market position*.**

Rationale:

The factors listed below were mainly changed and eliminated due to the specificity to the Russian market, Russian economy or Russian Accounting Standards. The Methodology shall be applicable to any country and based on any available accounting standards, e.g. IFRS, US GAAP, country specific accounting standards, etc.

- *Equity dynamics, Market Position of the company*
- *Compliance with regulatory prescriptions*
- *Company's relations with associations of insurers*
- *Quality of claims settlement*
- *Reputation*
- *Characteristics of the market for the company's main type of insurance*
- *Investment attractiveness of the region where the company operates*

- 3) **We propose to change/ remove factors of the section 5.1.2 *Corporate management and business-processes*.**

Rationale:

The factors listed below were changed/ removed in order to have a more generic factor without connection to any particular Accounting Standards. The Methodology shall be

applicable to any country and based on any available accounting standards, e.g. IFRS, US GAAP, country specific accounting standards, etc.

- *The auditor for IFRS reports*
- *The auditor for RAS reports*

4) We propose to change/ remove factors of the section 5.2.1 Insurance portfolio.

Rationale:

The factors listed below were changed/ removed to allow the assessment of insurance companies on international level:

- *Geographical diversification of the insurance portfolio*
- *Loss ratio divided by the insurance activity types*

5) We propose to change/ remove factors of the section 5.2.2 Client base.

Rationale:

The factors listed below were changed /eliminated due to the specificity to the Russian economy and for making it easier to find and calculate the figures:

- *Size of the client base*
- *Distribution channels for insurance products*
- *The amount of commission*
- *The importance of the main client for the Russian economy*

6) We propose to change the factor Reinsurance protection efficiency of the section 5.2.3 Reinsurance policy.

Rationale:

The period of assessment of the factor was reduced from 5 to 3 years. We concluded that given the constant change in reinsurance protection efficiency, information from 4 or 5 years ago is most of the times irrelevant to determine the current and projected situation of the insurance company in regard to this factor.

7) We propose to change factors of the section 5.3.1 Liquidity and creditworthiness.

Rationale:

The factors listed below were changed due to the specificity to the Russian economy and Russian currency:

- *Current liquidity ratio*
- *Adjusted net insurance liquidity ratio*
- *Experience of paying large benefits*
- *Accounts receivable*
- *Accounts payable*
- *Solvency margin*
- *Equity adequacy*

8) We propose to remove factors of the section 5.3.2 Structure of financial results.

Rationale:

The factors listed below were eliminated due to the specificity to the Russian Accounting Standards. The Methodology shall be applicable to any country and based on any available accounting standards, e.g. IFRS, US GAAP, country specific accounting standards, etc.

- *Return on assets according to Russian accounting standards*
- *Combined loss ratio according to the Russian Accounting Standards (CLR)*

9) **We propose to change/ remove factors of the section 5.3.3 Asset quality.**

Rationale:

The factors listed below were eliminated/changed due to the specificity to the Russian Accounting Standards:

- *Reliability of investments*
- *Stock market risks*
- *Fulfillment of the Prescription №3444-U and №3445-U*

10) **We propose to change the disclosure policy of the Agency with the regard to the public version of the Methodology towards making it more detailed and transparent.**

Rationale:

The Agency has identified that the current level of the Methodology's disclosure is not sufficient for the Agency's stakeholders to acquire a clear and transparent picture about the rating process, including relevant indicators and assumptions. In order to reduce informational inefficiencies the Agency intends to publish a more detailed version of the public Methodology on its website.

Please submit your comments to: info@raexpert.eu or compliance@raexpert.eu by the 4th of February 2018. Your response to this consultation will be published unless confidentiality is requested.