A.M. Best Announces Revised Debt Rating Methodology To Provide Summarizing Data

OLDWICK, N.J., *(Business Wire)* July 17 — A.M. Best Co. has released its revised debt rating methodology, which summarizes the relationship between financial strength ratings, issuer credit ratings and debt ratings that A.M. Best assigns to insurance organizations and their financial obligations. It also focuses on how the use of debt capital or other borrowings by insurance organizations can affect their ratings.

With the growing interest by non-policyholders in insurer creditworthiness, A.M. Best also is introducing an issuer credit rating, which is an opinion as to the overall creditworthiness of an insurer or insurance holding company from the perspective of its senior-most creditors. The assignment of an issuer credit rating serves as an integral transition from A.M. Best's traditional financial strength ratings scale to the credit rating scale, which is used in the capital markets.

The updated methodology also introduces revised notching guidelines, which reflect A.M. Best's view that the insurance industry requires wider notching between policyholder ratings and securities issued by insurance holding companies, than has been the convention in the capital markets, particularly at the lower rating levels. This view is supported by the one-year to 20-year cumulative default probabilities constructed from A.M. Best's proprietary database, the actual recoveries of impaired entities at the operating company level, and the trend to greater regulatory intervention.

Lloyd's A- Financial Strength Rating Affirmed By A.M. Best; Outlook Remains 'Stable'

OLDWICK, N.J., July 17 — A.M. Best Co. has affirmed the financial strength rating of A- (Excellent) of Lloyd's of London. The outlook remains "stable."

The rating reflects Lloyd's maintenance of an excellent business profile and capitalization, its improving performance, stable investment returns and enhanced standards of risk management. Offsetting factors include uncertainty as to the ultimate adequacy of Equitas' reserves and increasing risk to the Central Fund from large members.

Excellent business profile – In 2002 Lloyd's strengthened its relationship with its main market, the United States, increasing its U.S. surplus lines premium income by 21 percent in 2002 to USD 4,082 million. Lloyd's has also achieved significant premium growth in continental Europe, traditionally an area where Lloyd's has had a modest profile. Overall gross premiums written (net of brokerage) in continental Europe increased from GBP 1.4 billion (USD 2.2 billion) in 2001 to GBP 1.8 billion (USD 2.9 billion) in 2002. Lloyd's continues to benefit from its high profile global brand and network of licenses.

Excellent capitalization – A.M. Best believes that Lloyd's prospective capitalisation will remain excellent, taking into account its potential inability to make recoveries under the Central Fund insurance contract. Lloyd's total financial resources increased 23 percent in 2002 to GBP 27.0 billion (USD 43.3 billion), including an increase of nearly 46 percent in net Central Fund assets to GBP 476 million (USD 764 million).

Improving performance – A.M. Best expects marked improvement in Lloyd's performance for the 2002 to 2004 years of account, subject to normal loss experience. Lloyd's 2002 net incurred loss ratio after 15 months was 22 percent, down from 44 percent for 2001 at the same stage. In particular, A.M. Best believes that Lloyd's current estimate of a pure year profit for the 2002 year of GBP 1,484 million (USD 2,381 million) may well be exceeded. Lloyd's continues to benefit from the strong upturn in market conditions that began in 2001 and maintains relatively stable investment returns.

Enhanced risk management – A.M. Best views positively the steps taken by Lloyd's to create a professional risk management function, including both the Risk Management Division and the Franchise Performance Directorate (FPD). These two divisions represent a considerable commitment by Lloyd's to managing the next market down cycle. However, A.M. Best continues to have some reservations as to whether the FPD will be as effective as Lloyd's plans in some respects.

Equitas – Uncertainty as to the adequacy of Equitas' reserves remains a long-term negative factor in the rating.

• A.M. Best anticipates a marked uplift in Lloyd's closed-year performance from 2002 and a more active role for risk management into the next down cycle.

• If current positive factors affecting Lloyd's develop favorably, then this will be reflected in the rating.

Lloyd's Of London Seeks Approval for Reinsurance License in China

BEIJING, China, July 21 — Lloyd's of London chairman, Lord Peter Levene will file a submission today seeking approval to establish an on-shore reinsurance branch in China. Having an on-shore presence would allow Lloyd's to reinsure local currency business, providing Chinese insurers with full access to the Lloyd's market.

"An on-shore presence will allow Lloyd's to play a broader role in China, helping to transfer major risks from the balance sheets of local insurers and providing full access, in local currency, to the capacity, knowledge and technical expertise of the Lloyd's market," said Lord Levene.

Lord Levene is in China as part of a "high-powered" business delegation led by Mike O'Brien, British Minister of State for International Trade and Investment.

Currently, Lloyd's is only able to provide off-shore capacity in foreign currency. Chinese legislation only allows for foreign reinsurance companies to establish reinsurance branches in China and does not recognize Lloyd's unique market structure.

Lloyd's has been supporting Chinese insurers with specialist reinsurance capacity and expertise since the 1970s in areas such as marine, aviation, energy and nuclear power risks. Lloyd's established a representative office in Beijing in 2000 to promote a better understanding of Lloyd's with the local insurance market and regulatory authorities.

Standard & Poor's Rating Service Assigns 'AA-' Credit/Strength To RGA Life Reinsurance Of Canada

NEW YORK, N.Y., (Business Wire) July 18 — Standard & Poor's Ratings Services said today that it assigned its 'AA-' counterparty credit and financial strength ratings to Toronto, Ont.-based RGA Life Reinsurance Co. of Canada (RGA Canada). The outlook is "stable."

"The rating assignments reflect RGA Canada's core position within the life reinsurance operations of its parent, Reinsurance Group of America Inc. (RGA), its strong business position in the Canadian life reinsurance marketplace, relatively stable and strong operating performance, and very strong liquidity," said Standard & Poor's credit analyst Kevin Ahern. Offsetting these strengths is the competitive landscape in the Canadian life reinsurance marketplace and the group's strong, albeit, aggressive capitalization.

Premium growth is expected to be more than 10 percent, and RGA Canada is expected to further diversify its client profile in 2003. The segment's GAAP pretax operating earnings are expected to increase 8-10 percent in 2003, resulting in an ROR of more than 15 percent. Capital adequacy is expected to remain strong on a consolidated basis, consistent with a CAR of more than 130 percent.

RGA Canada is viewed as a core operation within RGA and contributes to the

CONTINUED ON PAGE 39