

Insurance Rating Criteria

Request for Comments

Scope of the Criteria

Lianhe Ratings Global Limited (“Lianhe Global”) applies the insurance rating criteria to insurers globally, including those in the life, health, property and casualty, trade credit, and reinsurance sectors. Life insurers typically focus on offering long-term insurance policies and manage long-term liabilities and investment portfolios, while property and casualty insurers cover a wide range of risks — from auto and home insurance to commercial liability. The criteria may also be applied to other institutions with similar operational and risk characteristics, where deemed appropriate. For insurance groups offering a wide array of financial services, Lianhe Global applies the criteria most relevant to the entity’s principal business activities and dominant risk features, and may incorporate additional criteria to ensure a comprehensive assessment of creditworthiness.

The criteria do not represent a comprehensive coverage but only address key rating factors to form our credit opinions and will be reviewed periodically. Credit opinions tend to be forward-looking and include our views of issuers’ future performance and development.

Lianhe Global invites market participants to provide comments and feedback on the proposed criteria by 6 August 2025 by submitting their comments and feedback to info@lhratingsglobal.com.

Overview

The criteria report explains Lianhe Global’s general approach to assessing an insurer’s standalone credit profile and the likelihood of external support that the entity will receive in case of need, i.e. to sustain the insurer’s viability. We incorporate the availability of external support into the assessment of an insurer’s standalone credit strength to provide a comprehensive and balanced view of the insurer’s creditworthiness and assign a credit rating to the entity.

We primarily based on the criteria assign Issuer Credit Ratings which reflect the ability of rated insurers to meet all financial obligations, including outstanding debt. We may also assign Insurer Financial Strength (“IFS”) Ratings to reflect their ability to meet obligations to policyholders. Depending on the jurisdiction and regulatory framework, an insurer’s IFS rating may be equal to or higher than its Issuer Credit Rating, considering the relative priority and risk of different obligations.

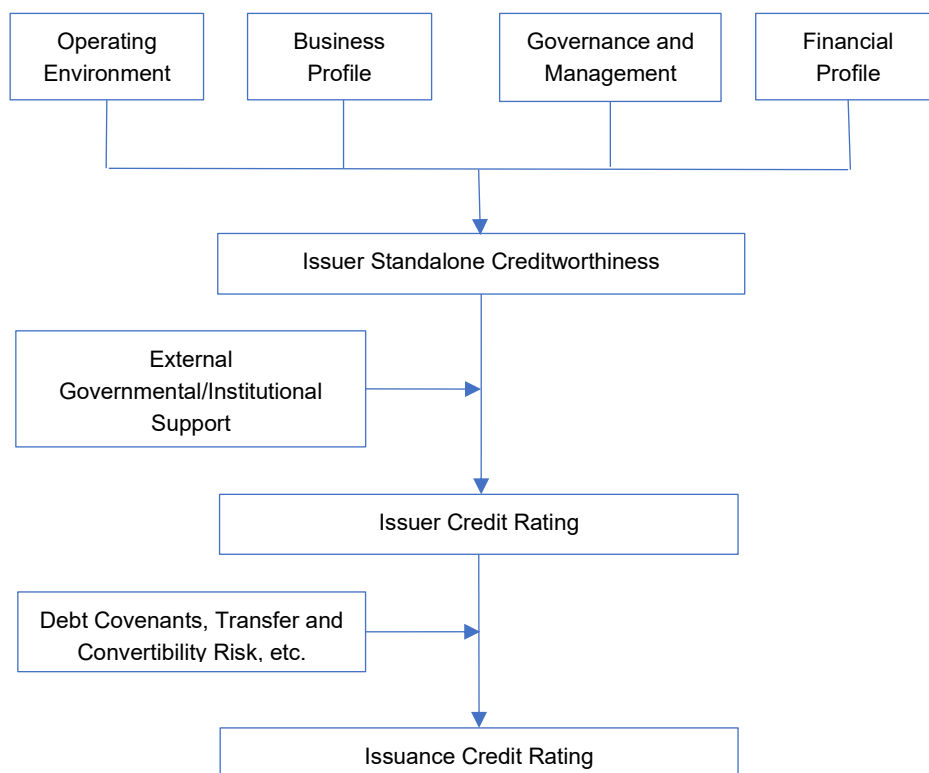
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The rating framework for insurers:


Standalone Creditworthiness Analysis

The analysis of an insurer's standalone creditworthiness is assessing the probability of the entity that will default or need to receive external support to avoid a default. We use a combination of qualitative and quantitative analysis to assess four key credit factors: the operating environment, business profile, governance and management, and financial profile.

The standalone assessment considers operational support, from which an insurer benefits in the usual course of business, such as complementary product offerings, funding facilities and knowledge and information sharing from its parent and affiliates. In addition, ratings assigned are based on our forward-looking expectations. We assess an insurer's financial history as well as its strategy and business model to arrive at a forward-looking view of its credit profile.

Key Credit Factor	Sub Factor
Operating Environment	Sovereign Rating
	Macroeconomy
	Legal and Regulatory Environment
Business Profile	Industry Profile
	Franchise and Market Position
Governance and Management	Business Mix and Diversification
	Corporate Structure and Governance
Financial Profile	Management and Risk Control
	Capital Adequacy
	Investment and Asset Quality
	Profitability

Key Credit Factor	Sub Factor
	Liquidity and Financial Flexibility
	Reserve and Reinsurance

Operating Environment

We assess the operating environment of jurisdictions where an insurer operates by looking at the sovereign credit profile, macroeconomy, legal and regulatory environment, and the insurance industry profile.

The operating environment often has a significant influence on other aspects of an insurer's credit profile. Weakening sovereign strength can affect the credit quality of an insurer operating in that jurisdiction as the deterioration usually relates to economic weaknesses or system-wide issues. A volatile economic environment may impair an insurer's earnings stability and asset quality. Competition tends to be intense in a fragmented market, while concerns over corporate governance and transparency are usually more pronounced within an underdeveloped legal system and regulatory framework.

Sovereign Credit Profile

Sovereign strength often has a significant impact on an insurer's credit profile domiciled in that country. In limited circumstances (such as with a strong overseas presence), an insurer's rating may exceed the sovereign rating.

We use internal assessment to gauge sovereign credit profiles. We apply both commonly accepted quantitative and qualitative metrics to conduct the sovereign analysis. In addition, we apply elements from recognized third-party indexes such as World Bank's Worldwide Governance Indicators, and the United Nations Development Programme's Human Development Index to maintain neutrality and objectivity in our analysis.

Macroeconomy

A country's economy usually affects an insurer's operation through its impact on the business and financial environment. Factors taken into consideration include the stage of economic development, and the economic growth pace and expectations. We also consider other attributes that may affect the healthiness of the economic environment. This may include the level and stability of interest rates and exchange rates, inflation, and employment and demographic prospects.

Economic growth influences demand for insurance products. Strong economic growth typically supports the growth of insurance premiums, while high unemployment reduces consumer spending on insurance coverage. Rising interest rates may improve investment returns on premiums, but reduce the market value of insurers' existing fixed-income portfolio. A steady and moderate inflation rate provides a healthy economic environment for business development. High inflation likely drives up operating and funding costs and hinders insurers' profitability and reserve adequacy.

Legal and Regulatory Environment

Regulators usually set rules around solvency standards, product offerings and pricing, and consumer protection. These regulations influence insurers' strategic decisions, business models, and risk appetite. When assessing the legal and regulatory environment, we focus on the prudence, stability, transparency, and effectiveness of a jurisdiction's regulatory system.

A prudent regulatory system typically features a market-based supervisory approach led by an independent authority with both the willingness and capability to enforce laws and policies. Regulatory predictability and consistency are essential for insurers to plan long-term business and manage risks effectively. In addition, a well-established legal system and regulatory regime reduces operational uncertainty and systemic risk. In contrast, an ambiguous or volatile legal framework may introduce compliance burdens, restrict capital mobility, and expose insurers to litigation and reputational risks. Internationally comparable accounting standards and proper auditing procedures are also important to ensure the reliability and integrity of financial information.

Industry Profile

The market structure and competitiveness affect an insurer's business strategy and development and may indicate structural strength or weakness of the overall insurance sector. We analyze the insurance industry profile by looking at the size and number of market participants, products and services provided, business growth, and the level of opening up to international competition.

We consider that an oligopolistic market likely creates an obstacle for new participants and protect existing insurers' franchise and market position. On the other hand, a highly fragmented market with overcapacity or institutions operating on non-commercial terms (such as stated-owned insurers) may result in irrational competition and undermine the credit quality of the sector. Competition is also generally more intense in a less developed market with homogeneous products and narrow business focuses.

Business Profile

An insurer's business profile, franchise and competitive position influence its current financial performance and creditworthiness and the sustainability for a long run. The ability to achieve a meaningful business scale and stable market share with favorable and resilient profit margins usually contribute to long-term stable profitability and sustainability.

The business profile assessment considers an insurer's competitive positioning within the market, including the absolute size and scale, primary business lines and risks taken as well as diversification. Inherent weakness or an excessive riskiness of its business profile can pose a significant constraint on an insurer's credit strength.

Franchise and Market Position

An insurer's franchise value is usually reflected in its resilient and sustainable market position, comprehensive product and service offerings, and wide market coverage. Large entities generally have a competitive advantage with business leadership and pricing power as well as the benefit of economies of scales. However, small market presences may be offset by a sustainable business model in a specific region or in niche product or client segments. Being part of a larger (typically financial) group can also be beneficial to an insurer's franchise with the access to a larger clientele base and business synergies from other group members. Conversely, reputational and contagion risks may arise should its affiliates have weaker credit profiles.

When evaluating an insurer's asset size and operating scale, we generally look at whether it is able to leverage the scale to achieve quality and sustainable business operations and profitability without taking excessive risks. In addition, an insurer with a large market share by assets/premiums usually possesses a leading and solid market position and has a strong brand recognition. Its competitive position relative to peers may be evident in its quality

customer base, strong and extensive distribution and pricing capability, which create a significant barrier for other insurers to compete.

Business Mix and Diversification

Diversified revenue streams from various business lines and regions usually support an insurer's earnings stability through economic and credit cycles. On the other hand, lack of business diversification can be a credit weakness as a concentrated business profile (e.g. a narrow product/client focus) may cause earnings volatility and concentration risk. We generally look at an insurer's premiums and earnings composition from various business lines, regions, and distribution channels in assessing its business mix and diversification.

Governance and Management

Prudent governance and professional management are essential for the achievement of an insurer's business and financial objectives, and ensuring good internal control and compliance with regulatory requirements. We focus on how an insurer balances the interests of different parties, including shareholders, insurance clients, regulators, and employees, and the quality and effectiveness of management, execution and risk control.

Corporate Structure and Governance

Prudent governance practices support an insurer to achieve long-term business success and financial stability. We usually examine features such as the ownership and organizational structure, reporting hierarchy, board composition and independence, board committees, related party transactions, material litigations, and prior regulatory sanctions.

A complex and opaque organizational structure, including layers of intermediate holding companies, may raise concerns over effective management, corporate governance and inappropriate intra-group transactions. Publicly listed entities usually have better disclosures and governance practices as they must abide by both listing and regulatory rules. However, private-owned institutions are not necessarily calls for concern. In addition, significant related party transactions or perceived weaknesses in financial reporting or the audit process may indicate potential corporate governance issues. We generally look at an insurer's internal policies and procedures for related party transactions and review the transactions to assess whether they are conducted within market norms.

Management and Risk Control

Assessing an insurer's management quality and execution is essential for understanding its strategic effectiveness and long-term sustainability. Strong management is typically demonstrated through a clear strategic vision, consistent achievement of business and financial goals, and sound decision-making. Effective execution is reflected in the successful implementation of initiatives and the ability to translate strategy into meaningful results. Key evaluation factors include management tenure, track record, governance structure, and alignment of incentives, such as compensation linked to long-term performance. These elements help determine whether leadership is capable of navigating market challenges and driving sustainable growth.

Risk control is a foundational component of an insurer's credit strength and resilience. A sound risk management framework should identify and quantify risks across underwriting, investment, operational, and compliance domains. Effective risk mitigation mechanisms ensure that exposures remain within acceptable thresholds. Clear risk governance through policies that assign responsibilities to employees, committees, and the board supports disciplined oversight and enforcement of risk limits. The presence of formal escalation

procedures, exception handling protocols, and regular risk reviews further enhances the insurer's ability to manage volatility and maintain financial stability across economic cycles.

Financial Profile

We examine an insurer's financial profile by analyzing key financial metrics, including their historical trends, stability and expectations. Financial metrics can be various depending on an insurer's business profile. We may reclassify items derived from an insurer's financial statements to fit our standard spreadsheets and ratio calculations for greater comparability across regions and/or for better measurements of the entity's financial position. Common treatments may involve excluding nonrecurring gains/losses from operating profits and deducting intangible assets from eligible capital.

Capital Adequacy

Capital serves as a buffer that absorbs losses and sustains an insurer's viability. Assessing an insurer's capital adequacy focuses on evaluating whether it holds sufficient capital to absorb unexpected losses and continue meeting its financial obligations. Stringent capital requirement prevents an insurer from taking excessive risk and increases incentives for better risk management to safeguard shareholders' equity. Adequate capitalization also helps maintain both public and regulatory confidence in an insurer.

We primarily consider the regulatory capital adequacy and composition (core and supplementary capital), and may look at other ratios, such as debt-to-capital and net written premiums-to-capital ratios, for general comparison. Different regions may adopt different capital regimes, such as Risk-Based Capital, Solvency II and China Risk-Oriented Solvency System ("C-ROSS"), requiring insurers to maintain capital reserves proportional to the risks they take, e.g. underwriting, market, credit, and operational risks.

Investment and Asset Quality

Evaluating an insurer's investment and asset quality is essential for understanding its financial strength and long-term viability. Insurers typically invest premiums collected from policyholders into a diversified portfolio of assets, including fixed-income securities, equities, real estate, and alternative investments. The quality of these assets directly impacts an insurer's ability to meet future claims and maintain solvency. On the other hand, the possibility of transferring asset risks to policyholders may mitigate these effects.

We mainly focus on the credit risk, market value volatility, and liquidity of investment portfolio and look at the portfolio composition, credit ratings of fixed-income securities, and asset-liability matching. A high concentration in low-rated or volatile assets may signal elevated risk, while a well-diversified portfolio with high-quality and liquid investments reflects prudent management. For insurers investing in foreign assets and exposed to currency risk, we assess the impact of currency movements on earnings and capital, as well as the effectiveness of hedging strategies. In addition, fair valuation with good transparency and disclosure helps us evaluate the investment asset risk and the reliability of reported asset values. Stress testing and scenario analysis may also help assess how the portfolio might perform under adverse conditions.

Profitability

Internal earnings generation is a critical factor in supporting an insurer's capital adequacy, operational resilience, and capacity for future business expansion. Assessing an insurer's profitability involves analyzing both its underwriting performance and investment return, which together form the core of its earnings. Underwriting profitability reflects how effectively



the company prices and manages insurance risk. Investment income, on the other hand, may contribute significantly to overall earnings, especially for life insurers with long-term liabilities. Evaluating investment performance helps determine how well the insurer is managing its asset portfolio to generate stable returns. Beyond the level of profitability, we also look at earnings quality, diversification, and stability. High-quality earnings are consistent, recurring, and not overly reliant on one-time gains or favorable market conditions.

Metrics such as return on assets and return on equity provide insight into how efficiently the company is using its resources to generate profit, while the combined ratio is mainly used for non-life insurers in assessing its underwriting operation. Diversification across product lines, geographies, and distribution channels usually enhances earnings stability and reduces vulnerability to sector-specific shocks.

Liquidity and Financial Flexibility

Assessing an insurer's liquidity primarily focuses on evaluating its ability to meet short-term obligations, particularly claim payouts, without having to liquidate long-term investments at unfavorable prices. Strong liquidity is essential for maintaining operational continuity and policyholder confidence, especially during periods of financial stress. Key metrics include the ratio of liquid assets to short-term liabilities or insurance reserves, which helps gauge the insurer's capacity to cover immediate needs. We also consider the quality and diversity of liquid assets and the potential impact of unexpected policyholder surrenders or lapses. Reliance on a narrow asset base for liquidity management can increase vulnerability, while mass surrenders can rapidly deplete available liquidity.

Financial flexibility refers to an insurer's ability to raise capital or adjust its financial structure in response to changing economic, regulatory, or operational conditions. It is a key indicator of financial resilience and adaptability, especially during periods of market stress or unexpected loss events. To evaluate the flexibility, we review an insurer's funding structure, including the mix and maturity of debt and equity, historical capital raising activities, reinsurance arrangements, dividend policies, and any contingency funding plans.

Reserve and Reinsurance

Assessing an insurer's reserve adequacy is essential to ensure it can meet future claim obligations and maintain financial soundness and stability. This typically involves comparing current reserves against projected ultimate claims, based on actuarial estimates and historical experience. The evaluation also considers trends in claim frequency and severity, which may signal emerging risks or shifts in exposure. Regular reserve adequacy testing also helps identify potential shortfalls early and ensures that reserves remain sufficient and appropriately adjusted over time.

Reinsurance plays a complementary role in managing risk undertaken by insurers. It allows insurers to transfer portions of their risk to other entities, reducing exposure to large or catastrophic losses. When evaluating reinsurance arrangements, we generally review the treaty structure (e.g., quota share, excess of loss, and stop-loss), retention limits, and the financial impact of ceded premiums and recoveries. Effective reinsurance strategies balance cost with risk mitigation, and stress testing helps assess resilience under adverse scenarios. We also look at the creditworthiness of reinsurers to ensure that risk transfer arrangement is adequate.

External Support Assessment

External support assessment focuses on extraordinary support an insurer may receive usually at the point of failure or not long before in order to sustain its viability, while ordinary/operational support an insurer benefits in the usual course of business has been considered in the standalone assessment.

External support typically comes from the governmental authorities of the country/region where the insurer is domiciled or from the insurer's shareholders. Governmental authorities include the government of the nation, any political subdivision thereof, whether state or local, and any agencies and regulatory bodies pertaining to the government. We assess both the capability and willingness of the potential supporter to provide assistance to sustain the insurer's viability.

Government Support

In assessing government support, we consider that the government's long-term rating/internal credit assessment best captures its capability to provide support to an insurer. We also look at relevant legislation and regulations to assess the government's willingness to provide support. The government statements on the intention to bail out failed insurers and track record of support help gauge the propensity.

In terms of the government's tendency to provide support to a specific insurer, the insurer's government ownership, systemic importance, and policy role are key considerations in assessing the public authority's willingness to provide support. We consider that a meaningful or long-term strategic government ownership or a private insurer with strong government relations (e.g. close relationships between government officials and shareholders) may indicate the authority's high tendency to provide support. In particular, a government may face high reputational risk if it allows a state-owned/controlled insurer to default.

Institutional Support

The institutional parent's credit strength as reflected in its issuer rating, its relative size to the subsidiary, and relevant regulations governing the group's operations (particularly the capital and liquidity flows within the group), affect the parent's ability to provide support. For example, regulatory restrictions on the fungibility of capital and liquidity within a group may reduce the ability of the owner to provide support. Conversely, existences of regulatory requirements to support the subsidiary can positively influence the issuer rating assigned to the subsidiary, even where the propensity to support might be low. In cases where the subsidiary represents a relatively large part of the consolidated group, the owner may find it difficult to provide sufficient support. Furthermore, we may assign the issuer rating to the subsidiary based on the group's consolidated profile if the subsidiary and other entities within the group are highly integrated in terms of management, funding fungibility and operations. The resulting of the support will not weaken the parent's rating.

The strategic importance of the insurer to its parent is usually the key factor in assessing the parent's willingness to provide support. The likelihood tends to be high should the subsidiary represent an essential part of the group's operation, carry the same brand name, and its failure may bring reputational risk to the group. The existence of any form of guarantee or commitment to support the subsidiary or cross-default clauses also help our assessment. In addition, we consider that an insurer's parent company owning a high majority stake or its controlling owner with strong influence on the insurer's operations may have high tendency to support. A controlling interest is usually with voting shares of over



50% to prevail in any stockholders' motion. Other circumstances can be considered to determine whether a party still holds a controlling ownership despite owning less than the majority of the voting shares.

Country risk of the jurisdiction an insurer domiciled may also affect our assessment when the risk may limit the insurer's ability to use support from its owner to service its obligations. The issuer rating of the insurer may be capped at levels significantly below those which would be assigned based on the owner's ability and propensity to provide support. In addition, when the owner's rating has factored in potential government support, we assess whether this support would flow through to the subsidiary by looking into relevant regulations. The owner's propensity to support may also influence the regulator's decision on whether to let the support flow through.

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