

## **Technical note**

# **Credit Rating Agencies and ICS Rating Category mapping**



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## 1 Purpose of this technical note

1. This technical note clarifies the Insurance Capital Standard (ICS) Rating Categories (RC) Mapping for the Credit Rating Agencies (CRAs) listed in Table 1, which originated during the monitoring period and was retained at ICS adoption for practical reasons. It also outlines the pathways under the ICS to recognise ratings from other CRAs.

## 2 Background

2. The ICS defines seven ICS RC (ICS RC 1-7) and includes a mapping of those categories to the scales of seven CRAs (S&P, Moody's, Fitch, JCR, R&I, DBRS and AM Best) in Table 1. ICS RCs 1-4 are investment grade. These elements are set out in L1-7, L2-4 and L2-6.

3. Moreover, the ICS provides two pathways for recognising ratings from agencies beyond those seven:

- a. ratings from CRAs recognised as External Credit Assessment Institutions (ECAIs) under the Basel framework may be used, with ICS RCs derived from the supervisor's Basel mapping (L2-5); and
- b. a principles-based avenue under which ratings from other CRAs may be used provided the agency satisfies eligibility criteria relating to objectivity, independence, transparency, disclosure, resources and credibility, and publishes sufficient default and transition statistics (L2-320). Mapping to ICS RCs is then determined using average three-year cumulative default rate thresholds listed in Table 32 (L2-321). Operational rules for selecting and applying ratings are set out in L1-133 to L1-135 and L2-322 to L2-326.

## 3 Clarifications

### 3.1 Table 1: monitoring and approval language

4. The ICS texts do not establish a formal monitoring or update process for Table 1, and there is no ongoing IAIS monitoring of Table 1 mappings. Establishing and sustaining such a process would require significant, recurring resources, including regular engagement with CRAs and collection/validation of default rates and transition matrices.

5. Additionally, the current text includes wording that could be interpreted as implying an IAIS approval role, which the IAIS does not perform: L1-135 states that ratings recognised by a home insurance regulator may be used "subject to clear instructions provided by the home insurance regulator on how to map those credit agency ratings to the ICS Rating Categories and explicit acceptance of the use of those ratings by the IAIS." This "explicit acceptance" clause could be identified for clean-up in future versions to remove any implication of an IAIS permission function.

## 3.2 Recognition beyond the seven CRAs and the RC 2-7 limitation for “other” CRAs

6. Unlike Table 1, which is applicable to the seven listed CRAs, Table 32 presently only allows mapping for other agencies to ICS RC 2-7 and does not include a band for ICS RC 1.

7. The seven CRAs in Table 1 were selected because of their wide use by Internationally Active Insurance Groups (IAIGs) and had sufficient, credible data at the time of mapping. By contrast, the CRAs to which Table 32 may apply are not known in advance. Because information may be less complete, an adjustment is applied: a one- or two-notch downward mapping relative to Table 1, depending on the availability and depth of historical cumulative default rate data. This means the highest ratings from such agencies map to ICS RC 2 or ICS RC 3.

8. In future versions, Table 32 could be revisited, including consideration of evidence-based conditions under which mapping to ICS RC 1 might be supported.

## 3.3 Interim approach

9. At the jurisdictional level, where the available data for a specific CRA are assessed to be as sufficient and credible as for the seven CRAs, Table 32 may be adjusted for that CRA by not applying the downward correction relative to Table 1. This approach is aligned with the underlying rationale of Table 1. No IAIS approval is required to recognise such CRAs and assign ICS RCs.