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Mapping of Assekurata credit assessments under the Standardised Approach

1. Executive summary

1. This report describes the mapping exercise carried out by the Joint Committee to determine the 'mapping'[1] of the credit assessments of ASSEKURATA Assekuranz Rating-Agentur GmbH (Assekurata).

2. The methodology applied to produce the mapping is a combination of the provisions laid down in Article 136(2) Regulation (EU) No 575/2013 (Capital Requirements Regulation – CRR) and those proposed in the Consultation paper on draft Implementing Technical Standards on the mapping of ECAIs' credit assessments under Article 136(1) and (3) of Regulation (EU) No 575/2013 published on 5 February 2014 (draft ITS).

3. The mapping neither constitutes the one which ESMA shall report on in accordance with Article 21(4b) of Regulation (EC) No 1060/2009 (Credit Rating Agencies Regulation - CRA) with the objective of allowing investors to easily compare all credit ratings that exist with regard to a specific rated entity nor should be understood as a comparison of the rating methodologies of Assekurata with those of other ECAIs. This mapping should however be interpreted as the correspondence of the rating categories of Assekurata with a regulatory scale which has been defined for prudential purposes. This implies that an appropriate degree of prudence may have been applied wherever not sufficient evidence has been found with regard to the degree of risk underlying the credit assessments.

4. The resulting mapping tables have been specified in Annex III of the addendum to the draft ITS published today. Figure 1 below shows the result for the main ratings scale of Assekurata, the Long-term credit rating scale, together with a summary of the main reasons behind the mapping proposal for each rating category. The results for the remaining rating scale can be found in Appendix 4 of this document.

[1] According to Article 136(1), the 'mapping' is the correspondence between the credit assessments of and ECAI and the credit quality steps set out in Regulation (EU) No 575/2013 (Capital Requirements Regulation – CRR).

Figure 1: Mapping of Assekurata's Long-term credit rating scale

Credit assessment	Credit quality step	Main reason
AAA	**2**	The quantitative factors are representative of the final CQS.
AA	**2**	
A	**3**	The quantitative factors are representative of CQS 2. As only limited information is available on the default definition, CQS 3 has been assigned.
BBB	**4**	The quantitative factors are representative of CQS 3. As only limited information is available on the default definition, CQS 3 has been assigned.
BB	**5**	The quantitative factors are representative of the final CQS.
B	**6**	The quantitative factors are representative of the final CQS.
CCC	**6**	The quantitative factors are representative of the final CQS.
CC/C	**6**	The meaning and relative position of the rating category is representative of the final CQS.
D	**6**	The meaning and relative position of the rating category is representative of the final CQS.

2. Introduction

5. This report describes the mapping exercise carried out by the Joint Committee (JC) to determine the 'mapping' of the credit assessments of ASSEKURATA Assekuranz Rating-Agentur GmbH (Assekurata).

6. Assekurata is a credit rating agency that has been registered with ESMA in 18 August 2011 and therefore meets the conditions to be an eligible credit assessment institution (ECAI)[2]. Assekurata is is the first German rating agency that has specialised in the quality assessment of insurance companies from a customer's perspective. To date Assekurata provides solicited corporate ratings for insurance companies in the following classes of insurance: life insurance, private health insurance, casualty insurance/accident and legal expense insurance and statutory health insurances.[3]

7. The methodology applied to produce the mapping is a combination of the provisions laid down in Article 136(2) CRR and those proposed in the Consultation paper on draft Implementing Technical Standards on the mapping of ECAIs' credit assessments under Article 136(1) and (3) of Regulation (EU) No 575/2013 published on 5 February 2014 (draft ITS). Two sources of information have been used. On the one hand, the quantitative and qualitative information available in CEREP has been used to obtain an overview of the main characteristics of this ECAI. On the other hand, information available in Assekurata's website regarding the types of credit ratings produced and the definition of the applicable rating scales has also been taken into account. This means that only public information has been available and that access to relevant information, such as the default behaviour of the rated items, has been limited. This has conditioned the accuracy of the analysis and explains the additional degree of prudence applied to the final mapping proposal.

8. The mapping neither constitutes the one which ESMA shall report on in accordance with Article 21(4b) of Regulation (EC) No 1060/2009 (Credit Rating Agencies Regulation - CRA) with the objective of allowing investors to easily compare all credit ratings that exist with regard to a specific rated entity nor should be understood as a comparison of the rating methodologies of Assekurata with those of other ECAIs. This mapping should however be interpreted as the correspondence of the rating categories of Assekurata with a regulatory scale which has been defined for prudential purposes. This implies that an appropriate degree of prudence may have been applied wherever not sufficient evidence has been found with regard to the degree of risk underlying the credit assessments.

9. Section 3 describes the relevant ratings scales of Assekurata for the purpose of the mapping. Section 4 contains the methodology applied to derive the mapping of Assekurata main ratings scale whereas Sections 5 refer to the mapping of its remaining relevant rating scale. The

[2] It is important to note that the mapping does not contain any assessment of the registration process of Assekurata carried out by ESMA.

[3] Source: CEREP

mapping tables are shown in Appendix 4 of this document and have been specified in Annex III of the addendum to the draft ITS published today.

3. Assekurata credit ratings and rating scales

10.Assekurata's produces two credit ratings. Column 2 of Figure 2 in Appendix 1 shows the relevant credit ratings that may be used by institutions for the calculation of risk weights under the Standardised Approach (SA)[4]:

- **Credit rating / Bonitatsrating (long-term)** - Assekurata's credit rating is an assessment of financial strength of German insurance and reinsurance companies. The rating incorporates key risk factors regarding the corporate itself as well as additional risk factors surrounding the business environment.

- **Corporate rating / Unternehmensrating (short-term)** - Using the corporate rating, Assekurata evaluates German insurance and reinsurance companies from the perspective of their main creditors, the policyholders. The creditworthiness rating is used as the basis in order to assess the ability to pay their obligations. An overall corporate quality is primarily analysed and evaluated from a customers' perspective based on differentiated sub-factors.

11.Assekurata assigns these credit ratings to different rating scales as illustrated in column 3 of Figure 2 in Appendix 1. Therefore, a specific mapping has been prepared for the following rating scales:

- **Long-term credit rating scale.** The specification of this rating scale is described in Figure 3 of Appendix 1.

- **Short-term corporate rating scale.** The specification of this rating scale is described in Figure 4 of Appendix 1.

12.The mapping of the Long-term credit rating scale is explained in Section 4 and it has been derived in accordance with the quantitative factors, qualitative factors and benchmarks specified in the draft ITS.

13.The mapping of the Short-term corporate credit rating scale is explained in Section 5 and it has been indirectly derived from the mapping of the Long-term issuer credit ratings scale and the relationship between these two scales, assessed by the Joint Committee based on the comparison of the meaning and relative position of the rating categories in both rating scales. This relationship is shown in Figure 5 of Appendix 1.

[4] As explained in recital 2 draft ITS, Article 4(1) CRA allows the use of the credit assessments for the determination of the risk-weighted exposure amounts as specified in Article 113(1) CRR as long as they meet the definition of credit rating in Article 3(1)(a) CRA.

4. Mapping of Assekurata's Long-term credit rating scale

14.The mapping of the Long-term credit rating scale has consisted of two differentiated stages where the quantitative and qualitative factors as well as the benchmarks specified in Article 136(2) CRR have been taken into account. Figure 7 in Appendix 4 illustrates the outcome of each stage.

15.In the first stage, the quantitative factors referred to in Article 1 draft ITS have been taken into account to differentiate between the levels of risk of each rating category. More specifically, the *long run default rate* of a rating category has been used to arrive at an initial mapping proposal by comparing its value with the benchmark specified in Article 15(2) draft ITS.

16.In a second stage, the qualitative factors proposed in Article 8 draft ITS have been considered to challenge the result of the previous stage.

4.1. Initial mapping based on the quantitative factors

4.1.1. Calculation of the long-run default rates

17.CEREP only contains 2 credit ratings, both assigned in 2013. This means that the available ratings and default data cannot be considered sufficient for the calculation of the short and long run default rates specified in the Articles 2 – 4 of the draft ITS: Therefore, the allocation of the CQS has been made in accordance with Article 7 of draft ITS, as shown in Figure 6 of Appendix 3.

18.For D rating category, no calculation of default rate has been made since it already reflects a 'default' situation.

4.1.2. Mapping proposal based on the long run default rate

19.As illustrated in the second column of Figure 7 in Appendix 4, the assignment of the rating categories to credit quality steps has been initially made in accordance with Article 7 of draft ITS. Therefore, the numbers of defaulted and non-defaulted rated items have been used together with the equivalent rating category of the international rating scale. The results are specified in Figure 6 of Appendix 3:

- **AAA/AA, BB and B**: the number of rated items in any of these categories is not sufficient to justify the credit quality step associated with the AAA/AA, BB and B rating categories in the international rating scale (CQS 1, CQS 4 and CQS 5 respectively). Therefore, the proposed credit quality steps for these rating categories are CQS 2, CQS 5 and CQS 6 respectively.

- **A, BBB:** the number of rated items in these two categories is sufficient to justify the credit quality step associated with the A and BBB rating categories in the international rating scale: CQS 2 and CQS 3 respectively.

- **CCC-C:** since the CQS associated with the equivalent rating category of the international rating scale is 6, the proposed mapping for these rating categories is also CQS 6.

4.2. Final mapping after review of the qualitative factors

20. The qualitative factors specified in Article 8 draft ITS have been used to challenge the mapping proposed by the default rate calculation. Qualitative factors acquire more importance in the rating categories where quantitative evidence is not sufficient to test the default behavior, as it is the case for all Assekurata's rating categories.

21. The **definition of default** applied by Assekurata and used for the calculation of the quantitative factors has been analysed:

    - The types of default events considered are described in Appendix 2 and are consistent with letters (a) and (b) of the definition of default under certain conditions of the benchmark definition specified in Article 5(3) draft ITS, which means it is less strict than the benchmark default definition, and does not include all the default types required according to the draft ITS.

    - There is no sufficient information to assess Assekurata's definition of default by estimating the share of bankruptcy-related events. Therefore, the definition cannot be adjusted accordingly.

    Due to these uncertainties a conservative approach has been chosen. This means that all rating categories are assigned a more conservative CQS. More specifically, rating category A is assigned CQS 3 instead of 2, and rating category BBB is assigned CQS 4 instead of 3. Other rating categories were assigned a more conservative CQS in the first step of the mapping based on quantitative factors, and therefore no change in the mapping should be proposed due to this factor.

22. Regarding **the meaning and relative position of the credit assessments**, it would suggest a more favorable CQS than the one proposed so far. However this qualitative factor cannot overrule the lack of quantitative information and therefore no change is proposed.

23. Regarding the **time horizon** reflected by the rating category, Assekurata's rating methodology focuses on the long-term. The stability of the rated items however cannot be confirmed due to lack of data over a 3-year time horizon.

24. Finally, it should be highlighted the use of the long run default rate benchmark associated with the equivalent category in the international rating scale as the **estimate of the long run default rate** for the calculation of the quantitative factor of all rating categories under Article 7 draft ITS.

5. Mapping of Assekurata's Short-Term corporate rating scale

25.Assekurata also produces short-term credit ratings and assigns them to the Short-term corporate ratings scale (see Figure 4 in Appendix 1). Given that the default information referred to these rating categories cannot be comparable with the 3-year time horizon that characterizes the benchmarks established in the draft ITS, the internal relationship assessed by the JC between these two rating scales (described in Figure 5 of Appendix 1) has been used to derive the mapping of the Short-term corporate rating scale. This should ensure the consistency of the mappings proposed for Assekurata.

26.More specifically, as each short-term issuer rating can be associated with a range of long-term issuer ratings, the CQS assigned to the short-term credit rating category has been determined based on the most frequently CQS assigned to the related long-term credit rating categories. In case of draw, the most conservative CQS has been considered.

27.The result is shown in Figure 8 of Appendix 4:

- **A++.** This rating category indicates a very good ability of the rated entity to meet its financial commitments. It is mapped to credit rating AAA and AA, which are predominantly mapped to CQS 2. Therefore, CQS 2 is the proposed mapping.

- **A.** This rating category indicates a good ability of the rated entity to meet its financial commitments. It is mapped to credit rating A, which is mapped to CQS 3. Therefore, CQS 3 is the proposed mapping.

- **B.** This rating category indicates a satisfactory ability of the rated entity to meet its financial commitments. It is mapped to long-term credit rating BBB and BB, which are mapped to CQS 4 and 5. Since the risk weights assigned to CQS 4 to 6 are all equal to 150% according to Article 131 CRR, the mapping proposed for the B rating is CQS 4.

- **C.** This rating category indicates a weak ability of the rated entity to meet its financial commitments. It is mapped to the long-term credit rating B and CCC, which is mapped to CQS 6. Since the risk weights assigned to CQS 4 to 6 are all equal to 150% according to Article 131 CRR, the mapping proposed for the C rating is CQS 4.

- **D.** This rating category indicates that the rated entity is inadequate. It is mapped to the long-term credit rating CC/C and D, which are mapped to CQS 6. Since the risk weights assigned to CQS 4 to 6 are all equal to 150% according to Article 131 CRR, the mapping proposed for the D rating category is CQS 4

Appendix 1: Credit ratings and rating scales

Figure 2: Assekurata's relevant credit ratings and rating scales

SA exposure classes	Name of credit rating	Credit rating scale
Long-term ratings		
Corporates	Credit rating / Bonitatsrating	Long-term credit rating scale
Short-term ratings		
Corporates	Corporate rating / Unternehmensrating	Corporate rating scale

Source: Assekurata

Figure 3: Long-term corporate rating scale / Bonitat

Credit assessment	Meaning of the credit assessment
AAA	Prime
AA	High grade
A	Upper medium grade
BBB	Lower medium grade
BB	Non-investment grade/ speculative
B	Highly speculative
CCC	Substantial risks / Extremely speculative
CC/C	In default with little prospect for recovery
D	In default

Source: Assekurata

Figure 4: Short-term corporate rating scale / Unternehmensrating

Credit assessment	Meaning of the credit assessment
A++	Very good
A	Good
B	Satisfactory
C	Weak
D	Inadequate

Source: Assekurata

Figure 5: Internal relationship between Assekurata's long-term and short-term rating scales

Long-term issuer credit ratings scale	Short-term issuer credit ratings scale
AAA AA	A++
A	A
BBB BB	B
B CCC	C
CC/C D	D

Source: assessed by the Joint Committee based on the comparison of the meaning and relative position of the rating categories

Appendix 2: Definition of default

Rating-scale D = payment default on financial commitments in insurance policy and contract obligations

Source: Assekurata

Appendix 3: Default rates of each rating category

Figure 6: Mapping proposal for rating categories with a non-sufficient number of credit ratings

	AAA/AA	A	BBB	BB	B	CCC-C
CQS of equivalent international rating category	CQS 1	CQS 2	CQS 3	CQS 4	CQS5	CQS 6
N. observed defaulted items	0	0	0	0	0	0
Minimum N. rated items	496	0	0	10	5	n.a.
Observed N. rated items	0	0	0	0	0	0
Mapping proposal	**CQS2**	**CQS 2**	**CQS 3**	**CQS 5**	**CQS 6**	**CQS 6**

Source: Joint Committee calculations based on CEREP data

Appendix 4: Mappings of each rating scale

Figure 7: Mapping of Assekurata's Long-term credit rating scale

Credit assessment	Initial mapping *based on LR DR* (CQS)	Review *based on SR DR* (CQS)	Final review *based on qualitative factors* (CQS)	Main reason for the mapping
AAA	2	n.a.	**2**	The quantitative factors are representative of the final CQS.
AA	2	n.a.	**2**	
A	2	n.a.	**3**	The quantitative factors are representative of CQS 2. As only limited information is available on the default definition, CQS 3 has been assigned.
BBB	3	n.a.	**4**	The quantitative factors are representative of CQS 3. As only limited information is available on the default definition, CQS 3 has been assigned.
BB	5	n.a.	**5**	The quantitative factors are representative of the final CQS.
B	6	n.a.	**6**	The quantitative factors are representative of the final CQS.
CCC	6	n.a.	**6**	The quantitative factors are representative of the final CQS.
CC/C	6	n.a.	**6**	The meaning and relative position of the rating category is representative of the final CQS.
D	6	n.a.	**6**	The meaning and relative position of the rating category is representative of the final CQS.

Figure 8: Mapping of Assekurata's Short-term corporate rating scale

Credit assessment	Corresponding Long-term credit rating scale assessment (assessed by JC)	Range of CQS of corresponding Long-term credit rating scale	Final review *based on qualitative factors* (CQS)	Main reason for the mapping
A++	AAA / AA	2	**2**	The final CQS has been determined based on the most frequent step associated with the corresponding long-term credit rating category.
A	A	3	**3**	The final CQS has been determined based on the most frequent step associated with the corresponding long-term credit rating category.
B	BBB / BB	4 – 5	**4**	The final CQS has been determined based on the most frequent step associated with the corresponding long-term credit rating category. The risk weights assigned to CQS 4 to 6 are all 150%, therefore CQS 4.
C	B / CCC	6	**4**	The final CQS has been determined based on the most frequent step associated with the corresponding long-term credit rating category. The risk weights assigned to CQS 4 to 6 are all 150%, therefore CQS 4.
D	CC/C/D	6	**4**	The final CQS has been determined based on the most frequent step associated with the corresponding long-term credit rating category. The risk weights assigned to CQS 4 to 6 are all 150%, therefore CQS 4.