# 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 the one specified in the Commission's Implementing Regulation (EU) 2016/1799 ('the Implementing Regulation') laying down Implementing Technical Standards (ITS) with regard to the mapping of credit assessments of External Credit Assessment Institutions (ECAIs) for credit risk in accordance with Articles 136(1) and (3) of the Regulation (EU) No 575/2013 of the European Parliament and the Council ('the CRR'). This Implementing Regulation employs a combination of the provisions laid down in Article 136(2) CRR.

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[2] 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. As described in Recital 12 of the Implementing Regulation, it is necessary to avoid causing undue material disadvantage on those ECAIs which, due to their more recent entrance in the market, present limited quantitative information, with the view to balancing prudential with market concerns. Therefore, the relevance of quantitative factors for deriving the mapping should be relaxed. This allows ECAIs which present limited quantitative information to enter the market and increases competition. Updates to the mapping should be made wherever this

[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).

[2] In this regard please consider http://www.esma.europa.eu/system/files/esma__2015-1473_report_on_the_possibility_of_establishing_one_or_more_mapping....pdf.

becomes necessary to reflect additional quantitative information collected after the entry into force of the revised draft ITS.

5. The resulting mapping tables have been specified in Annex III of the Implementing Regulation. Figure 1 below shows the result for the main ratings scale of Assekurata, the Long-term credit rating scale.

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

| Credit assessment | Credit quality step |
|---|---|
| AAA | 1 |
| AA | 1 |
| A | 2 |
| BBB | 3 |
| BB | 4 |
| B | 5 |
| CCC | 6 |
| CC/C | 6 |
| D | 6 |

## 2. Introduction

6. 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).

7. 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)[3]. Assekurata 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.[4]

8. The methodology applied to produce the mapping is the one specified in the Commission's Implementing Regulation (EU) 2016/1799 ('the Implementing Regulation') laying down Implementing Technical Standards (ITS) with regard to the mapping of credit assessments of External Credit Assessment Institutions (ECAIs) for credit risk in accordance with Articles 136(1) and (3) of the Regulation (EU) No 575/2013 of the European Parliament and the Council ('the CRR'). This Implementing Regulation employs a combination of the provisions laid down in Article 136(2) CRR. Two sources of information have been used. On the one hand, the quantitative and qualitative information available in ESMA Central Repository (CEREP[5]) 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. Available public information has been complemented with specific information requested to this ECAI, such as the one regarding the default definition.

9. The following sections describe the rationale underlying the mapping exercise carried out by the Joint Committee (JC) to determine the mappings. 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 mapping tables are shown in Appendix 4 of this document and have been specified in Annex III of the Implementing Technical Standards on the mapping of ECAIs' credit assessments under Article 136(1) and (3) of Regulation (EU) No 575/2013.

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

[4] Source: CEREP

[5] CEREP is the central repository owned by ESMA to which all registered/certified CRAs have to report their credit assessments. http://cerep.esma.europa.eu/cerep-web/.

# 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)[6]:

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

[6] As explained in recital 4 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.

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.

15.In the first stage, the quantitative factors referred to in Article 1 of the ITS have been taken into account to differentiate between the levels of risk of each rating category. The *long run default rate* of a rating category has been calculated in accordance with Article 6 of the ITS, as the number of credit ratings cannot be considered to be sufficient.

16.In a second stage, the qualitative factors proposed in Article 7 of the 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 3 – 5 of the ITS. Therefore, the allocation of the CQS has been made in accordance with Article 6 of the ITS, as shown in Figure 6 and Figure 7 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 6 in Appendix 4, the assignment of the rating categories to credit quality steps has been initially made in accordance with Article 6 of the 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.

- **AAA/AA/A/BBB/BB/B:** the number of rated items in each of these categories is equal or larger than the respective minimum required number of observed items given the number of defaulted items in the rating category. Thus the credit quality steps associated with the AAA/AA, A, BBB, BB, B rating categories in the international rating scale (CQS 1, CQS 2, CQS 3, CQS 4 and CQS 5 respectively) can be assigned.

- **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 7 of the 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[7], 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), (b), (c) and (d) of the definition of default under certain conditions of the benchmark definition specified in Article 4(4) of the ITS, which means it is consistent with the benchmark default definition provided in the ITS.

- Based on the information provided by Assekurata, the share of bankruptcy-related events in its definition of default is 30%.

Therefore, no specific adjustment has been proposed based on this factor.

22.Regarding **the meaning and relative position of the credit assessments**, they are aligned with the mapping proposal resulting from the quantitative factors .

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 6 of the 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 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.

[7] The default behavior of a rating category is considered to be properly tested if the quantitative factors for that rating category are calculated under Articles 3 – 5 ITS.

27. The results are 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 1. Therefore, CQS 1 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 2. Therefore, CQS 2 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 3 and 4. Therefore, CQS 4 is the proposed mapping.

- **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 are mapped to CQS 5 and 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<br>AA | A++ |
| A | A |
| BBB<br>BB | B |
| B<br>CCC | C |
| CC/C<br>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

A default event for a certain enterprise, which is represented by D (Default), is given when at least one of the following has occurred:

1. The enterprise has filed under any applicable bankruptcy, insolvency or winding up statute.

2. There is a failure to pay or satisfy an obligation in accordance with the underlying transaction documents and Assekurata believes that this default will subsequently be general in nature and include all obligations.

3. Independent of the issuer rating, securities described as a Distressed Exchange are downgraded to D.

4. Assekurata reserves the right to downgrade ratings to D, when it believes that a general default is imminent and unavoidable, although this is a less frequent and a more subjective decision.

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 | 0 | 0 | 0 | 0 | 0 | n.a. |
| Observed N. rated items | 0 | 0 | 0 | 0 | 0 | 0 |
| **Mapping proposal** | **CQS 1** | **CQS 2** | **CQS 3** | **CQS 4** | **CQS 5** | **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** | 1 | n.a. | **1** | The quantitative factors are representative of the final CQS. |
| **AA** | 1 | n.a. | **1** | |
| **A** | 2 | n.a. | **2** | The quantitative factors are representative of the final CQS. |
| **BBB** | 3 | n.a. | **3** | The quantitative factors are representative of the final CQS. |
| **BB** | 4 | n.a. | **4** | The quantitative factors are representative of the final CQS. |
| **B** | 5 | n.a. | **5** | 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 | 1 | **1** | The final CQS has been determined based on the most frequent step associated with the corresponding long-term credit rating category. |
| **A** | A | 2 | **2** | The final CQS has been determined based on the most frequent step associated with the corresponding long-term credit rating category. |
| **B** | BBB / BB | 3 – 4 | **4** | The final CQS has been determined based on the average CQS associated with the corresponding long-term credit rating category. |
| **C** | B / CCC | 5 - 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. |