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10 **BEFORE THE INSURANCE COMMISSIONER**
11 **OF THE STATE OF CALIFORNIA**
12

13
14 In the Matter of the Rate Applications of
15
16 STATE FARM GENERAL INSURANCE
COMPANY,
17 Applicant.
18

File Nos. PA-2024-00011, PA-2024-00012,
PA-2024-00013

**STIPULATION TO INTERIM RATE
SUBJECT TO REFUNDS WITH
INTEREST PENDING A FINAL
DETERMINATION OF THE LEGALITY
OF THE RATE; [PROPOSED] INTERIM
RATE ORDER SUBJECT TO REFUNDS
PENDING A FINAL DETERMINATION
OF THE LEGALITY OF THE RATE**

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1 4. The Department notified the public of the Applications on July 5, 2024 as to File
2 Nos. 24-1271 and 24-1273, and on July 12, 2024 as to File No. 24-1330, pursuant to Insurance
3 Code section 1861.05, subdivision (c).

4 5. On September 3, 2024 for File Nos. 24-1271 and 24-1273 and September 10, 2024
5 for File No. 24-1330, Applicant waived the 60-day and 180-day “deemed approved” dates set
6 forth in Insurance Code section 1861.05(c) for these Applications with a five-day grace period for
7 reactivation.

8 6. On July 26, 2024, as to File No. 24-1271, August 19, 2024 as to File No. 24-1273,
9 and August 26, 2024 as to File No. 24-1330, Intervenor Consumer Watchdog (“Intervenor”)
10 submitted its Petition to Intervene, Petition for Hearing, and Notice of Intent to Seek
11 Compensation in each of the Applications.

12 7. On August 12, 2024 as to File No. 24-1271, September 5, 2024 as to File No. 24-
13 1273, and September 3, 2024 as to File No. 24-1330, Applicant submitted its Answer to the
14 Intervenor’s Petition for Hearing in each of the Applications.

15 8. On August 24, 2024 as to File No. 24-1271, September 3, 2024 as to File No. 24-
16 1273, and September 10, 2024 as to File No. 24-1330, the Commissioner granted Intervenor’s
17 Petition to Intervene.

18 9. On September 21, 2023, Governor Gavin Newsom of the State of California issued
19 Executive Order N-13-23, requesting the Commissioner of Insurance to take prompt regulatory
20 action in response to more frequent, severe wildfires as a result of climate change, including,
21 without limitation, by: (1) “[i]mprov[ing] the efficiency, speed, and transparency of the
22 Department’s rate approval process”; (2) “[t]ailor[ing] the rate approval process to account for all
23 factors necessary to promote a robust, competitive insurance marketplace, including through
24 potential revisions to the way catastrophe risks and insurer costs are accounted for”; and (3)
25 “[m]aintain[ing] the long-term availability of homeowners and commercial property insurance
26 coverage.”

27 10. On January 7, 2025, Governor Newsom issued a Proclamation of a State of
28 Emergency (“Proclamation”), due to the wildfires which had ignited in Los Angeles County and

1 burned over 1,200 acres as of the time the Proclamation was issued. In the Proclamation, the
2 Governor directed “[a]ll agencies of the state government [to] utilize and employ state personnel,
3 equipment, and facilities for the performance of any and all activities consistent with the direction
4 of the Office of Emergency Services and the State Emergency Plan.”

5 11. On January 9, 2025, California Insurance Commissioner Ricardo Lara
6 (“Commissioner”) issued a Moratorium on Cancellations and Nonrenewals in areas affected by
7 the Palisades, Eaton, and several other fires (collectively, the “Palisades/Eaton Fires), and called
8 on all property insurers “to forego any pending nonrenewals and cancellations that are due to take
9 effect on residential properties located within and around these wildfires.”

10 12. On January 13, 2025, the Commissioner issued a Declaration of Emergency
11 Situation to address the effects of the magnitude of the Palisades/Eaton Fires in Southern
12 California.

13 13. Previously in March 2024, Applicant had announced it would not offer renewals
14 on approximately 30,000 homeowners, rental dwelling, and other property insurance policies and
15 would also nonrenew all commercial apartment policies. On January 15, 2025, Applicant heeded
16 the Commissioner’s January 9th call for insurers to voluntarily forego pending nonrenewals and
17 cancellations in areas impacted by the Palisades/Eaton Fires, and paused the notification process
18 on homeowner nonrenewals in not only the areas affected by the wildfires but also the entirety of
19 Los Angeles County, thereby going beyond the Commissioner’s call and meaning that
20 homeowners with policies with Applicant that were still in force as of January 7, 2025 in Los
21 Angeles County, would still have the option to renew with Applicant for an additional one-year
22 policy term despite having previously been identified for nonrenewal.

23 14. On February 3, 2025, Applicant submitted a letter to the Commissioner, requesting
24 the Commissioner approve an immediate interim rate increase of 22% in its homeowners line
25 (File No. 24-1271), 15% in its renter/condo tenant line (File No. 24-1273), and 38% in its rental
26 dwelling line (File No. 24-1330) in the pending Applications (the “Interim Rate Request”)¹,
27 subject to refunds with interest following a full rate hearing should the Commissioner ultimately

28 ¹ The Interim Rate Request is attached as Exhibit A and its contents incorporated herein by reference.

1 determine the Interim Rate increase was excessive. In its Interim Rate Request, Applicant
2 reported that as of February 1, 2025, it has received more than 8,700 claims, has already paid
3 more than \$1 billion to consumers, and it anticipates having to pay significant additional amounts
4 as a result of the Palisades/ Eaton Fires. Additionally, Applicant stated its financial strength rating
5 was downgraded in 2024 by rating agency A.M. Best and that some of Applicant's customers
6 might have to find other insurance if further downgrades were to happen, due to mortgage lender
7 requirements surrounding appropriate insurance coverage for mortgage collateral. Based on its
8 initial data from the Palisades/Eaton Fires, Applicant provided updated preliminary template
9 indications, in footnote 6 of the Interim Rate Request, for all lines in the Applications, indicating
10 initial support for its Interim Rate Request, subject to being updated with final data at the end of
11 the first quarter of 2025. Overall, Applicant represents that its financial projections show a
12 continued decline in the surplus it needs to support the writing of its homeowners lines of
13 insurance in California including by continuing to pay the future claims of its policyholders, such
14 that the Commissioner should approve implementation of an interim rate increase during the
15 pendency of a rate hearing on the Applications in order to avoid the danger of insolvency.

16 15. On February 5, 2025, Applicant filed its updated preliminary rate templates, that
17 support footnote 6 of the Interim Rate Request, in the Applications on the publicly available
18 System for Electronic Rate and Form Filings (SERFF). Applicant also provided information
19 regarding its rating agency concerns.² (Collectively, the "Updated Information".)

20 16. On February 7, 2025, the Intervenor informed the Parties that it declined to
21 stipulate to interim rates subject to refunds with interest in the Applications.

22 17. Based upon the Applications including the information regarding Applicant's
23 concerning financial condition, the Interim Rate Request, the Updated Information, Applicant's
24 currently in-effect rates, the preliminary information provided by Applicant regarding the
25 devastating impacts of the Palisades/Eaton Fires on Applicant's financial condition, and
26 Applicant's representations, all of which will be reviewed and tested at hearing prior to issuance
27 of a final rate order, and without agreeing here with the Applicant's data, assumptions, or
28

² A copy of the rating agency information submitted by Applicant is attached here as Exhibit B.

1 methodologies as set forth in the Applications or the Updated Information for purposes of a rate
2 hearing to determine a final rate order, the Department agrees that Applicant has made a
3 preliminary showing that it may be able to demonstrate, after a full rate hearing, that it may be
4 entitled to a rate increase. The Department further agrees that Applicant has made a preliminary
5 showing of exigent circumstances to justify an interim rate increase, subject to refunds with
6 interest, such that the Commissioner should approve Applicant's request to implement an
7 immediate interim rate increase, subject to refunds with interest following a full rate hearing on
8 the Applications.

9 **STIPULATION AND REQUEST FOR INTERIM RATE ORDER**

10 1. The Parties stipulate and agree that the Commissioner has lawful authority to
11 approve an interim rate pending a final determination of the legality of the rate. (*Calfarm Ins. Co.*
12 *v. Deukmejian* (1989) 48 Cal.3d 805, 824-825 ("The power to grant interim relief is necessary for
13 the due and efficient administration of Proposition 103[.]"); *20th Century Ins. Co. v. Garamendi*
14 (1994) 8 Cal.4th 216, 245.)

15 2. The Parties stipulate and agree that, following a rate hearing in this matter, the
16 Commissioner has lawful authority in this proceeding to require Applicant to pay refunds with
17 interest to its policyholders for the difference between the interim rate and the final approved rate
18 if the Commissioner ultimately determines in a final rate order that the interim rate order was
19 excessive. The Parties further stipulate and agree that if Applicant fails to comply with the
20 Commissioner's final rate order, the Commissioner can and will appropriately enforce
21 compliance including without limitation the potential assessment of penalties for noncompliance.
22 The Parties do not intend, by this Stipulation, to in any way impact the right of a Party to seek a
23 stay of a final order pursuant to California Insurance Code § 1858.6.

24 3. The Parties stipulate and agree that an interim rate order, subject to refunds with
25 interest following a rate hearing, by the Commissioner shall not be considered a final order or
26 decision within the meaning of Insurance Code section 1861.09.

27 4. This Stipulation is made solely to reach a compromise among the Parties. Other
28 than the Parties' agreement regarding the factual issue of an appropriate interim rate subject to

1 refunds with interest for the Applicant pending a final determination of its legality and the
2 applicability of provisions of law regarding the Commissioner's lawful authority, the Parties'
3 agreement to this Stipulation shall not represent any agreement regarding any of the other matters
4 at issue in this rate proceeding.

5 5. Based upon the Applications including the information regarding Applicant's
6 concerning financial condition, the Interim Rate Request, the Updated Information, Applicant's
7 currently in-effect rates, the preliminary information provided by Applicant regarding the
8 devastating impacts of the Palisades/Eaton Fires on Applicant's financial condition, and
9 Applicant's representations, all of which will be reviewed and tested at hearing prior to issuance
10 of a final rate order, and without agreeing with the Applicant's data, assumptions, or
11 methodologies as set forth in the Applications or the Updated Information for purposes of a rate
12 hearing to determine a final rate order, the Department agrees that Applicant has made a
13 preliminary showing that it may be able to demonstrate, after a full rate hearing, that it may be
14 entitled to a rate increase. Accordingly, the Department believes and thereon alleges that based
15 upon information currently available, an interim rate increase, subject to refunds with interest
16 pending a final determination by the Commissioner of its legality, is appropriate in this instance
17 and would be lawfully issued in support of the due and efficient administration of Proposition 103
18 by the Commissioner as well as in furtherance of the Governor's Executive Order N-13-23 and
19 the Commissioner's recent Proclamation. The Department further believes and thereon alleges
20 that this Stipulation is in the public interest, in order to maintain maximum availability of
21 homeowners insurance options in California, and that taken as a whole it is fundamentally fair,
22 adequate, and reasonable.

23 6. Accordingly, based upon all of the foregoing, the Applications, the Interim Rate
24 Request, the Updated Information, Applicant's currently in-effect rates, and such other
25 information and representations provided by Applicant, the Parties stipulate and agree that
26 Applicant shall implement an overall interim rate increase, subject to potential refunds with
27 interest following a full rate hearing and final determination of the legality of the rate by the
28 Commissioner, to be implemented with an effective date of May 1, 2025 for new and renewal

business, as follows:

File No.	Line	Interim Rate Subject to Refunds with Interest following Rate Hearing
24-1271	Homeowners Non-Tenant HO-3	+21.8%
24-1273	Overall Renter/Condo Tenant	+15%
24-1330	Rental Dwelling	+38%

7. Additionally, Applicant stipulates and agrees that it will maintain appropriate records of all policyholders charged an interim rate through the Commissioner's final determination of the legality of the rate, in order to be able to effect any appropriate refunds with interest if necessary following a full rate hearing on the Applications. If the Commissioner ultimately determines that the interim rate in effect during the pendency of the rate hearing was excessive and that Applicant is required to issue any refunds with interest, Applicant agrees that (1) it will not contest the Commissioner's authority in this proceeding to issue an order requiring refunds with interest; and (2) it will issue such refunds with interest as soon as practical but in any event will commence the process of issuing refunds no later than 120 days following the Commissioner's final rate determination, subject to any stay issued pursuant to Insurance Code section 1858.6. Additionally, Applicant agrees that it will report in writing to the Department once any and all such refunds with interest have been paid, and that such report shall be publicly available.

8. Moreover, Applicant stipulates and agrees that, after an interim rate has been ordered but before a full rate hearing has been completed and the Commissioner has issued a final rate order, Applicant will not withdraw the currently pending Applications, without the Department's prior agreement and approval. If for any reason the pending Applications are withdrawn after an interim rate has been implemented but prior to the completion of a full rate hearing and the issuance of a final rate order by the Commissioner, Applicant stipulates and agrees that it will issue refunds with interest of the entirety of the premiums collected pursuant to

1 the Commissioner's interim rate order, as soon as practical but in no event later than 180 days
2 following the withdrawal.

3 9. The Department asserts that at the rate hearing on the Applications to determine
4 whether the requested rates and stipulated interim rate are supportable and not excessive,
5 inadequate, and/or unfairly discriminatory, and should be approved as a final rate order of the
6 Commissioner, Department staff will examine and offer evidence and recommendations
7 regarding, without limitation, whether, based upon the updated data through the first quarter of
8 2025, or another mutually agreed-upon stipulated updated data cut-off date, the Commissioner
9 should enter findings and an order that Applicant's requested rates are reasonable and not
10 excessive, inadequate, unfairly discriminatory, or otherwise in violation in Proposition 103, as
11 well as such other issues as may be raised in a Notice of Hearing or during a rate hearing on the
12 Applications.

13 10. The Parties stipulate and agree that for purposes of a full rate hearing on the
14 Applications, Applicant shall update the Applications with a complete set of rate-setting data
15 through the end of the first quarter of 2025, or another mutually agreed-upon date as may be
16 approved by an administrative law judge.

17 11. The Parties stipulate and agree that the Commissioner shall retain jurisdiction for
18 the purpose of enforcing the provisions and terms of this Stipulation and the Order requested
19 thereon.

20 12. The undersigned represent and warrant under penalty of perjury under the laws of
21 the State of California that they have full and complete authority to enter into and bind the party
22 on whose behalf they are signing to all of the terms of this Stipulation.

23 Based on all of the foregoing, the parties respectfully request that the Commissioner issue
24 an Interim Rate Order Subject to Refunds with Interest Pending a Final Determination of the
25 Legality of the Rate, based upon the terms of the Stipulation as set forth above to resolve the
26 above-described legal and factual issues.

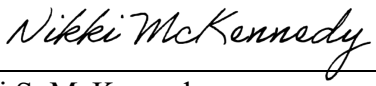
1 Dated: February 7, 2025

STATE FARM GENERAL INSURANCE
COMPANY

2
3
4 By: 
5 Vanessa Wells
6 HOGAN LOVELLS US LLP
7 *Attorneys for Applicant State Farm General*
8 *Insurance Company*

9 Dated: February 7, 2025

CALIFORNIA DEPARTMENT OF
INSURANCE

10
11 By: 
12 Nikki S. McKennedy
13 *Attorneys for the California Department of*
14 *Insurance*

**BEFORE THE INSURANCE COMMISSIONER
OF THE STATE OF CALIFORNIA**

In the Matter of the Rate Applications of)	File Nos. PA-2024-00011, PA-2024-00012, PA-2024-00013
STATE FARM GENERAL INSURANCE COMPANY,)	
Applicant.)	
)	
)	[PROPOSED] INTERIM RATE ORDER SUBJECT TO REFUNDS WITH INTEREST PENDING A FINAL DETERMINATION OF THE LEGALITY OF THE RATE

INTERIM RATE ORDER ADOPTING STIPULATION

Having reviewed the Applications, Applicant's Request for an Interim Rate, and the Parties' Stipulation to Interim Rate Subject to Refunds with Interest Pending a Final Determination of the Legality of the Rate, and evidence submitted in support, and good cause appearing, IT IS ORDERED THAT the request of Applicant State Farm General Insurance Company ("Applicant) for an interim rate increase subject to refunds with interest pending a final determination of its legality is GRANTED as set forth herein.

IT IS FURTHER ORDERED THAT Applicant shall implement an interim rate as follows, for new and renewal business with an effective date of _____, 2025:

File No.	Line	Interim Rate Subject to Refunds with Interest following Rate Hearing
24-1271	Homeowners Non-Tenant HO-3	+ _____ %
24-1273	Overall Renter/Condo Tenant	+ _____ %
24-1330	Rental Dwelling	+ _____ %

IT IS FURTHER ORDERED THAT this Interim Rate Order is not and shall not be considered a final order or decision by the Commissioner and that the interim rate shall be

1 implemented subject to potential refunds with interest pending a final determination by the
2 Commissioner of its legality, following a full rate hearing in this matter on the Applications.

3 IT IS FURTHER ORDERED THAT Applicant will maintain appropriate records of all
4 policyholders charged these interim rates through the Commissioner's final determination of the
5 legality of the rate, in order to be able to effect any appropriate refunds subject to interest if
6 necessary. If the Commissioner ultimately determines that Applicant shall issue any refunds with
7 interest, Applicant will issue such refunds with interest as soon as practical but in any event will
8 commence the process of issuing refunds no later than 120 days following the Commissioner's
9 final rate determination, and Applicant will report in writing to the Department once any and all
10 such refunds with interest have been paid, and such report shall be publicly available. This Order
11 is without prejudice to any application for a stay under California Insurance Code § 1858.6.

12 IT IS FURTHER ORDERED THAT Applicant will not withdraw the currently pending
13 Applications before a full rate hearing has been completed and a final rate order issued, without
14 the Department's prior agreement and approval. If for any reason the pending Applications are
15 withdrawn for any reason after the interim rates have been implemented but prior to the
16 completion of a full rate hearing and the issuance of a final rate order by the Commissioner,
17 Applicant will issue refunds with interest of the entirety of the premiums collected pursuant to the
18 Commissioner's Interim Rate Order.

19 IT IS FURTHER ORDERED THAT for purposes of a full rate hearing on the
20 Applications, Applicant shall update the Applications with a complete set of rate-setting data
21 through the end of the first quarter of 2025, or another mutually agreed-upon date as may be
22 approved by an administrative law judge.

23 IT IS SO ORDERED.

24
25 Dated: _____

RICARDO LARA
Insurance Commissioner

26
27
28 By: _____

EXHIBIT A

February 3, 2025

The Honorable Ricardo Lara
Commissioner of Insurance
California Department of Insurance
300 Capitol Mall, 17th Floor
Sacramento, CA 95814
via email: commissionerlara@insurance.ca.gov

Re: State Farm General Insurance Company Request for Emergency Interim Rate Approval

Commissioner Lara,

State Farm has served the customers of California for nearly 100 years and our intention is to continue serving them for many more. As the largest insurance group in the state, we appreciate all you and your staff are doing to help consumers navigate the aftermath of last month's horrific Los Angeles wildfires. Thousands of State Farm agents, agent team members and employees are on the ground and assisting customers virtually in the wake of this tragedy. As of February 1st, State Farm General Insurance Company¹ (SFG) has received more than 8,700 claims and has already paid over \$1 billion to customers. We know we will ultimately pay out significantly more, as these fires will collectively be the costliest in the history of the company. Although reinsurance will assist us in paying what we owe to customers, the costs of these fires will further deplete capital from SFG. Last year, one rating agency downgraded SFG and, with further capital deterioration as a result of the fires, additional downgrades could follow. If that were to happen, customers with a mortgage might not be able to use State Farm General insurance as collateral backing for their mortgage. With nearly three million policies in force, including more than one million homeowners customers, SFG needs your urgent assistance in the form of emergency interim approval of additional rate to help avert a dire situation for our customers and the insurance market in the state of California.

Nearly a year ago, we shared with you that *"the swift capital depletion of SFG is an alarm signaling the grave need for rapid and transformational action, including the critical need for rapid review and approval of currently pending and future rate filings."* (See attached March 2024 letter.) As you are aware, SFG has three rate applications, for four lines of business, that have been pending since last summer.² We are requesting that you take emergency action to help protect California's fragile insurance market by immediately approving interim rate increases on these filings, with rates to be effective May 1, 2025, in the following amounts: 22% for Non-Tenant Homeowners, 15% for Tenants – Renters, 15% for Tenants – Condominium Unitowners, and 38% for

¹ As a reminder, SFG is almost exclusively a California insurer, with homeowners insurance being its largest line of business. State Farm products written by affiliates of SFG – such as State Farm branded auto and life insurance – are not the subject of this letter.

² See SERFF Filings SFMA-123139896, filed 6/27/2024 for +30.0% for Non-Tenant (Homeowners); SFMA-134139931, filed 6/27/2024 for +52.0% for Tenants – Renters and +36.0% for Tenants – Condominium Unitowners; and SFMA-134139850, filed 7/5/2025 for +38.0% for Rental Dwelling (RDP). We note that these three applications were all originally based on Variance 6, a solvency-related adjustment to what is otherwise the maximum permitted premium under the rate regulations. Because of the upward impact of the Los Angeles fires on the maximum permitted premium, it's possible that SFG's rate increases for some lines may ultimately be supportable without Variance 6, but the financial condition that led to its invocation has only worsened.

Rental Dwelling (RDP). Because all three applications are for rate increases above 7%, and all three have an intervenor, ordinarily they can only be approved after a hearing (if one is requested by the intervenor) or via a three-way settlement. Hearings are historically very rare because of the uncertainty and length of the process, with the last SFG rate hearing not resulting in a final rate order until about 17 months after the notice of hearing was issued. Even resolution through settlement can be very difficult and usually takes months. An emergency *interim* rate approval would allow SFG to start collecting additional premiums much more quickly and possibly begin rebuilding its risk-bearing capacity. A *final* approved rate would subsequently be determined by you after a full hearing, if a settlement can't be reached first. If the final rate (whether after hearing or by settlement) is lower than the interim rate, refunds would be issued by SFG for the difference for any period during which the interim rates were in effect. The interim amounts SFG is requesting are smaller (for most lines) than the full rate need we originally applied for, in the hope that this will facilitate a speedy emergency approval. There is simply too much at stake for SFG's customers and the broader market if any rate increase has to wait on a full hearing or other resolution in the normal course.

While the California Department of Insurance (CDI) has recently approved several smaller SFG rate filings and made progress on your Sustainable Insurance Strategy, the fact is that SFG's capital position continued to deteriorate even *before* the latest fires. By year-end 2024, SFG's Policyholder Protection Fund – i.e. surplus, or capital available to pay claims – was approximately a quarter of what it was in 2016, and its surplus relative to the risk it supports dropped nearly eighty-five percent by one measure, putting the company below certain minimum regulatory Risk-Based Capital requirements. (See attached illustration of SFG's financial deterioration.) Over the nine-year period ending with 2024, SFG will pay \$1.26 in claims and expenses for every \$1.00 collected in premium, resulting in over \$5 billion in cumulative underwriting losses. While this underwriting loss was partially offset by investment income, SFG's after-tax net loss totals \$2.8 billion over this same nine-year period. Meanwhile, SFG's attempts over that same period to both raise rates and restrict growth, in order to keep our risk profile in line with available surplus, were constrained by regulatory considerations and met with limited success. This was due in no small part to intervenors in the rate review process, whose very efforts to delay and decrease needed rate adjustments prevented SFG from maintaining a capital position supportive of its risk profile and impaired its ability to support continued underwriting of California properties.³

In order to better preserve its claims-paying capacity under these circumstances, SFG made the difficult decision in [May 2023](#) that it would stop writing any new policies in California, and in [March 2024](#) that it would nonrenew 72,000 existing policies, approximately 29,000 of which are homeowners policies. That non-renewal process is ongoing. When asked by the CDI to pause non-renewals in wildfire moratoriums, we have abided by all requests. Further, following the recent wildfires, homeowners non-renewals in Los Angeles County were paused. Any of these homeowner policies which had pended non-renewals in Los Angeles County that were on the books on January 7th will have an option to renew with SFG. The high concentrations of risk covered by SFG in the fire footprint will generate a direct loss many times larger than the company's pre-event surplus. SFG's already stressed financial position will be further weakened, even after accounting for billions of dollars in anticipated recoveries from a prudently robust reinsurance program that includes State Farm Mutual Automobile Insurance

³ For example, intervenors succeeded in convincing the prior commissioner to order SFG to reduce dwelling insurance rates 7% and issue a \$100M+ refund after SFG filed in 2014 for a 7% increase (an annual difference of more than \$150M). SFG's legal position in the dispute was later vindicated, but not until 2022 (when the California Supreme Court [denied review](#) of the [Court of Appeal's decision](#) in SFG's favor).

Company (“State Farm Mutual”) as the primary reinsurer. State Farm Mutual provides the majority of SFG’s reinsurance cover. External reinsurer capacity to underwrite significantly greater portions of SFG’s massive risk portfolio at a reasonable price (or possibly, at any price) does not exist. These fires reinforce why reinsurance is a critically important part of SFG’s claims-paying capacity, now and into the future, allowing SFG to write or retain significantly more property insurance in areas with significant risk such as wildfires than would otherwise be possible. The situation also reinforces SFG’s absolute disagreement with any characterization that its payments for necessary reinsurance are in any way inflated or that SFG may have ‘engineered’ its weakened financial condition – that is irresponsible and simply not true.

The importance of our ask for your immediate help to protect all Californians cannot be overstated. The magnitude of expected claims payments for the Los Angeles fires, along with SFG’s participation in FAIR Plan losses⁴, puts tremendous strain on the company’s already-diminished surplus and very significant pressure on internal and external (regulatory and rating agency) measures of financial strength and claims-paying ability, which must necessarily include the potential for *additional* catastrophic loss events in the future. Last March, SFG’s financial strength rating was downgraded by AM Best⁵ and SFG triggered a regulatory Company Action Level Event after failing to meet the NAIC’s Risk-Based Capital ratio requirements based on its year-end 2023 financial position. SFG must be able to prospectively demonstrate its ability to generate sufficient capital to support its risk profile.

As the Insurance Commissioner, you can have a very significant impact on SFG’s ability to continue operating in California by immediately approving the requested interim rate changes. This is the most concrete evidence you can provide to solvency regulators, rating agencies and SFG leadership that SFG has a chance to begin rebuilding capital to sustain itself. Ordinarily, the conditional nature of such a rate approval (i.e. the possibility of refunds if the final approved rate is lower than the interim rate) might not be enough to prevent much more significant and necessary actions by SFG or to assuage solvency regulators and the rating agencies. In this case, however, the enormous losses generated by the Los Angeles fires will soon flow into the CDI rating template and will clearly demonstrate that the interim amounts SFG has requested are supportable.⁶ This then is primarily a

⁴ SFG is required to book its share of FAIR Plan losses on its financial statements, regardless of whether an assessment is issued. SFG’s participation rate for dwelling losses (commercial losses are treated separately) is expected to be around 16%.

⁵ The downgraded financial strength rating is below what is acceptable to some mortgage lenders as appropriate insurance cover for mortgage collateral. This had limited impact on SFG policyholders because the company continued to receive an acceptable rating from another rating agency. Additional downgrades have the potential to force hundreds of thousands of SFG policyholders to seek insurance from another company or the FAIR Plan.

⁶ We request that the full hearing for final rate amounts be based on fully-updated rate templates using data from the first quarter of 2025. For purposes of determining the interim rates requested, we have calculated an updated rate indication using the standard rate templates included in the filings by changing two inputs: 1) using a 5/1/2025 effective date and 2) a new catastrophe provision that incorporates wildfire loss estimates up through the most recent fires. The following table shows the initial indication prior to the adjustments, the updated indication, and the interim rate request.

Line of Business	Filed CDI Template Indication (without using Variance 6)	Updated CDI Template Indication	Interim Rate Increase Request
Non-Tenant Homeowners	-10.0%	+21.8%	+22.0%
Tenants – Renters	+7.9%	+16.6%	+15.0%
Tenants – Condominium Unitowners	+5.1%	+20.0%	+15.0%
Rental Dwelling	+10.5%	+42.0%	+38.0%

question of timing, and of what could happen to SFG's customers and the larger market if SFG has to wait months for additional premiums to begin flowing to possibly halt the decline of, or even begin to rebuild, SFG's Policyholder Protection Fund.

You have noted your desire to have an insurance market where insurers want to invest and protect more Californians. In addition to your other efforts, immediate approval of additional and appropriately supported rate for SFG (even on an interim basis) sends a strong message that the state is serious about reforming its insurance market and allowing insurers to collect sufficient premiums to protect Californians against the risk of loss to their homes. When insurers are able to be self-sustaining, it drives further investment and competition in the state of California, which increases availability and supports a sustainable insurance market.

We commend you and your staff for their ongoing work to implement your Sustainable Insurance Strategy. We especially look forward to seeing your plans come to fruition for faster and more efficient rate reviews, to allow for nimbler pricing in reaction to market changes. And we will cooperate with you and other public officials (including the Governor and legislators) on measures that bolster resilience through public investment in risk mitigation, improved community design and robust emergency response, to begin to address the cost curve for this wildfire peril. Having said that, your immediate approval of SFG's interim rate request is an indispensable and critical first step to eventually restoring the company's financial strength, potentially preserving coverage for millions of SFG's remaining customers, and working toward a more sustainable insurance environment in California.

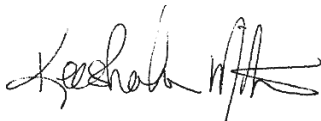
Sincerely,



Dan Krause
President and Chief Executive Officer
State Farm General Insurance Company



Mark Schwamberger
Vice President and Treasurer
State Farm General Insurance Company



Keesha-Lu Mitra
Vice President and General Counsel
State Farm General Insurance Company

CC: Michael Martinez, Chief Deputy Commissioner, California Department of Insurance
Nikki McKennedy, Assistant Chief Counsel, California Department of Insurance
Pamela Pressley, Senior Staff Attorney, Consumer Watchdog
Vanessa Wells, Esq., Hogan Lovells

Attachments:

- March 20, 2024 letter from State Farm General to Commissioner Lara
- Illustration of State Farm General financial deterioration

March 20, 2024

The Honorable Ricardo Lara
Commissioner of Insurance
California Department of Insurance
300 Capitol Mall, 17th Floor
Sacramento, CA 95814
via email: commissionerlara@insurance.ca.gov

Re: Restoring the financial condition of State Farm General Insurance Company

Dear Commissioner Lara,

Thank you for your recent meeting with us and the candid conversation. On behalf of State Farm General Insurance Company (SFG)¹, we write to reinforce our need, and express hope and appreciation, for the role the Department of Insurance must play in our financial recovery, to the benefit of California consumers.

As we discussed, SFG's capital position has severely deteriorated, and we are increasingly concerned about its financial well-being. SFG's policyholder surplus was \$2.2 billion and \$1.3 billion at year-end 2022 and 2023 respectively, in contrast to \$4.1 billion at year-end 2016. Although there haven't been significant wildfire losses for several years, windstorm catastrophes in early 2023 and increasing trends in non-catastrophe water losses and liability claims (especially commercial lines and personal umbrella policies), without the additional premium needed to support those cost increases, have generated large underwriting losses. SFG has managed its policy growth by limiting writing in high-risk areas for many years, and more recently by ending all new policy sales. However, SFG's risk exposure grew tremendously in the last few years, with construction cost inflation being a major driver. Taken together, these trends have resulted in surplus of less than 50 cents for every dollar of risk (as measured by net written premium) we face today, which makes SFG's financial strength less than a quarter of what it was at year-end 2016. With that drop in surplus and increase in exposure, the company necessarily has to rely increasingly on reinsurance cover, the cost of which puts further downward pressure on surplus without the needed additional premium to support this cost.

As also noted, external measures of SFG's financial strength are also becoming increasingly concerning. AM Best already had a negative ratings outlook for SFG and continues to review the financial condition of SFG to determine if additional action is needed. At certain financial strength rating levels, acceptance of SFG policies as appropriate insurance cover for mortgage collateral may diminish. This has the potential to affect existing SFG policyholders across California. Additionally, to comply with solvency regulations, SFG is required to file a Company Action Plan by April 15th with the Illinois Department of Insurance (SFG's solvency regulator) to explain the company's plan to restore its financial condition.

¹ As a reminder, SFG is almost exclusively a California-only insurer.

As we look to continue to serve the insurance needs of Californians, we seek the Department's assistance in helping to rebuild the company's financial strength. We recognize and appreciate the positive impact of the Department's recent homeowners rate approval. Of course, the full effect of that new rate on SFG's surplus position won't begin until March 2025, since the rate is applied to policies as they renew on a rolling 12-month basis. And it's clear more rate is still needed, as market conditions have not remained static since we made our last filing supporting the recently approved increase in February of 2023. Insurance is not insulated from inflationary trends affecting goods across the entire economy. In fact, construction cost increases have been among the highest inflationary categories over the last five years. Short of emergency rate regulations being issued very soon, the limitations of CDI's current rate template may necessitate the next homeowners rate filing to rely on one or more variances. While there will undoubtedly be novel issues to work through, rapid review and approval of a new rate appropriate to the circumstances – along with all other upcoming and pending SFG rate filings – will be critical to SFG's survival, especially in light of potential intervenor delays.

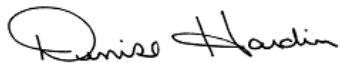
As shared with the Department prior to the February 2023 filing, rate increases alone would likely be insufficient to restore SFG's financial strength. We must now take action to reduce our overall exposure to be more commensurate with the capital on hand to cover such exposure, as most insurers in California have already done. We have been reluctant to take this step, recognizing how difficult it will be for impacted policyholders, in addition to our independent contractor agents who are small business owners and employers in their local California communities. Rebuilding capital, even with higher rates, will take some time. We are striving to minimize the impact of the necessary actions that must be taken. We will continue to be transparent with you and your staff regarding these actions.

You and your Department are an indispensable part of broader market reforms that could eventually allow SFG to resume its normal place in that market. As you have pointed out, California residents are best served in the long run by a fair and well-functioning insurance market, a key component of which is that consumers bear the economic reality of the true costs to insure their property. California homeowners insurance premiums are still below the national average, and far below other disaster-prone states. We understand the impact of higher prices on consumers. At the same time, we are even more concerned with availability of insurance.

We recognize the Department's ongoing efforts to pursue implementation of your Sustainable Insurance Strategy, including the allowance for catastrophe modeling and reinsurance costs in ratemaking and improving rate filing procedures and timelines. Along with addressing the uncapped financial exposure of FAIR Plan assessments, such reforms could materially improve the health of the market, particularly if they allow for more nimble insurer pricing in response to sudden changes in market conditions. We are acutely aware of the political challenges that the actions needed to improve SFG's financial position pose to broader reform efforts. Please know that we have an ongoing desire and commitment to collaborate with you and your staff, as well as the Governor's office, to achieve these reforms as quickly as possible. We cannot overstate, and we agree with your public plea for, the need for regulatory modernization.

The swift capital depletion of SFG is an alarm signaling the grave need for rapid and transformational action, including the critical need for rapid review and approval of currently pending and future rate filings. We take very seriously our responsibility to be there for customers who experience a claim and our actions are with that goal at the fore. A financial failure of SFG will detrimentally impact the entire market, an outcome we are all trying to avoid. We look forward to working with you and your staff to rebuild the financial health of SFG and to create a firmer foundation on which this market can thrive.

Sincerely,



Denise Hardin
President and Chief Executive Officer
State Farm General Insurance Company



Mark Schwamberger
Vice President and Treasurer
State Farm General Insurance Company

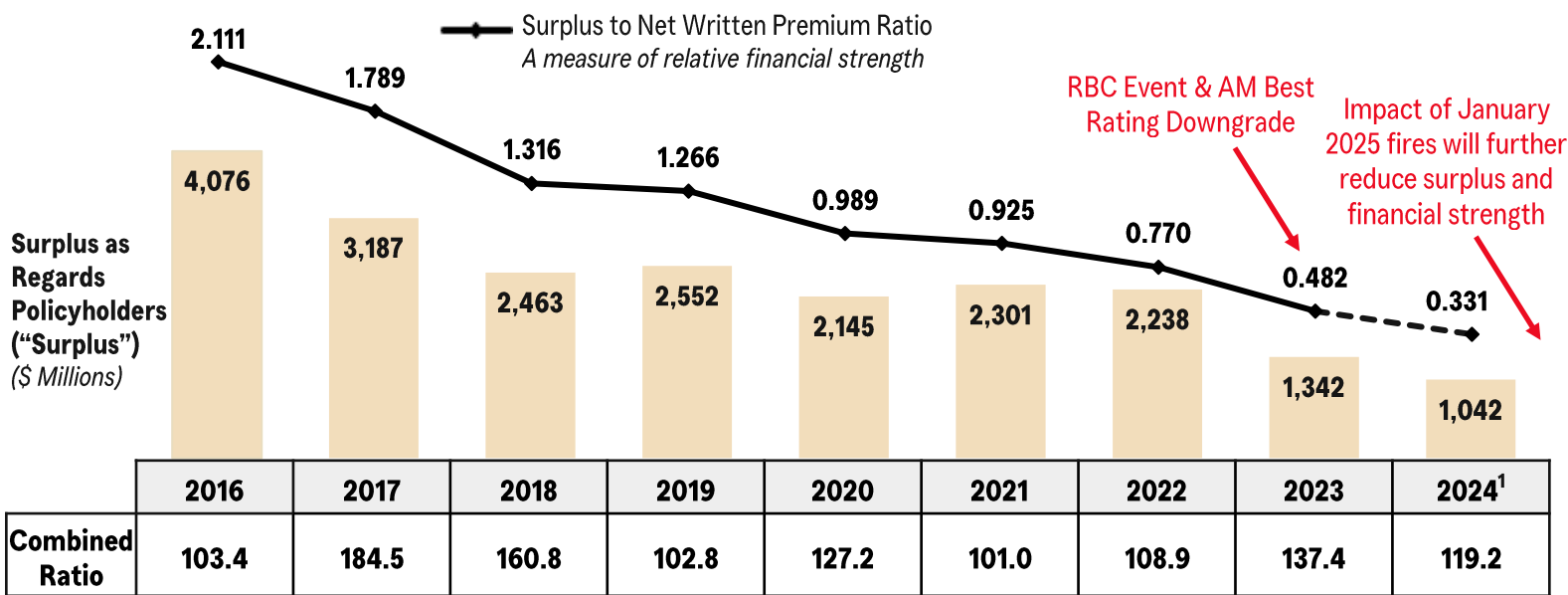


Keesha-Lu Mitra
General Counsel
State Farm General Insurance Company

CC: Michael Martinez, Chief Deputy Commissioner

State Farm General Insurance Company

Financial Results 2016 – 2024¹



¹ Year-end 2024 represents a preliminary result. All other values sourced from annual financial statements filed with insurance regulators on or by March 1 of each year. The combined ratio is based on net results and calculated by taking incurred losses plus incurred expenses and dividing that sum by earned premium (a number above 100 represents an underwriting loss with the underwriting gain/loss calculated by subtracting incurred losses and incurred expenses from earned premium).

Financial Strength Deterioration

State Farm General (SFG) is almost exclusively a California insurer, with homeowners insurance being its largest line of business.

The surplus of SFG continued to deteriorate in 2024. SFG's already stressed financial position will be further weakened by the financial impact of the January 2025 fires, including SFG's participation in FAIR Plan losses. This is even after accounting for the billions of dollars in anticipated recoveries from a prudently robust reinsurance program that includes State Farm Mutual Automobile Insurance Company ("State Farm Mutual") as the primary reinsurer.

Year-end 2024 surplus is estimated at \$1.04 billion – **a quarter of its value compared to year-end 2016 and less than half its value since just year-end 2022**. The year-end 2024 surplus to net written premium ratio is estimated to be 0.331 with the first quarter 2025 ratio expected to fall below the NAIC range provided by the Insurance Regulatory Information Systems (IRIS) manual.

The cumulative underwriting loss for 2016 – 2024 is \$5.3 billion with a cumulative combined ratio of 125.7% – meaning SFG will pay \$1.26 in claims and expenses for every \$1 of premium collected. While this underwriting loss was partially offset by investment income, SFG's after-tax net loss totals \$2.8 billion over this same nine-year period ending December 31, 2024, and is clearly not sustainable.

Risk Based Capital (RBC) – RBC is a uniform capital standard prescribed by the National Association of Insurance Commissioners (NAIC) and used by insurance regulators, including the California and Illinois Departments of Insurance. The RBC framework requires various corrective actions on the part of the insurer and its domestic regulator should the insurer's capital fall below certain defined trigger points. As a result of SFG's 2023 financial position, the **company triggered a Company Action Level Event after failing to meet the NAIC's RBC ratio requirements**, which dictated that a plan be filed with the Illinois Department of Insurance ("IDOI" is SFG's domestic financial solvency regulator) specifying corrective actions that would address the event. Based on the further deterioration in surplus during 2024, SFG expects to again fail to meet the RBC standard and will be required to file an another / updated RBC Plan with the IDOI. The net (after-reinsurance) impact of the January 2025 fires, along with SFG's participation in FAIR Plan losses, puts further strain on an already strained financial position resulting in the expectation of further deterioration of the company's RBC. The NAIC is considering inclusion of wildfire catastrophe risk into RBC as it is not currently included – its inclusion will put even greater pressure on the SFG RBC ratio. SFG must meet solvency and regulatory requirements, including RBC requirements, on an individual entity basis without regard to the solvency or financial condition of any other affiliated entity.

AM Best Financial Strength Rating – In March 2024, credit rating agency AM Best **downgraded** SFG's Financial Strength Rating (FSR) to B (Fair) and its Long-Term Issuer Credit Rating (ICR) to bb+ (Fair). AM Best noted the following in its release²: "The Credit Ratings (ratings) reflect State Farm General's balance sheet strength, which AM Best assesses as weak, as well as its marginal operating performance...The continuation of the negative outlook on the Long-Term ICR reflects the uncertainty of the company's ability to stabilize and strengthen its risk-adjusted capitalization given ongoing challenges regarding profitability and internal capital generation...and the challenging regulatory environment within California's marketplace that have constrained the ability of State Farm General (as well as its industry peers) to increase premium rates in a timely fashion."

² See March 2024 AM Best news release – <https://news.ambest.com/pr/PressContent.aspx?refnum=34559&altsrc=2>



EXHIBIT B

MARCH 28, 2024 03:35 PM (EDT)

AM Best Downgrades Credit Ratings of State Farm General Insurance Company

CONTACTS:

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FOR IMMEDIATE RELEASE

OLDWICK - MARCH 28, 2024 03:35 PM (EDT)

AM Best has downgraded the Financial Strength Rating (FSR) to B (Fair) from A (Excellent) and the Long-Term Issuer Credit Rating (Long-Term ICR) to “bb+” (Fair) from “a” (Excellent) of State Farm General Insurance Company (State Farm General) (Bloomington, IL). The outlook of the FSR has been revised to stable from negative, while the outlook of the Long-Term ICR is negative.

The Credit Ratings (ratings) reflect State Farm General’s balance sheet strength, which AM Best assesses as weak, as well as its marginal operating performance, neutral business profile and appropriate enterprise risk management (ERM). The ratings also reflect lift, as defined within Best’s Credit Rating Methodology, from its parent, State Farm Mutual Automobile Insurance Company.

The rating downgrades reflect continued deterioration in State Farm General’s policyholder surplus at Dec. 31, 2023, which resulted in a corresponding decline in overall risk-adjusted capitalization, as measured by Best’s Capital Adequacy Ratio (BCAR), and weakening balance sheet metrics. A contributing factor to this decline was sharp increases in claim severity affecting the company’s umbrella and commercial multi-peril lines of business.

The continuation of the negative outlook on the Long-Term ICR reflects the uncertainty of the company’s ability to stabilize and strengthen its risk-adjusted capitalization given ongoing challenges regarding profitability and internal capital generation, trending adverse reserve development occurring on prior accident years, and the challenging regulatory environment within California’s marketplace that have constrained the ability of State Farm General (as well as its industry peers) to increase premium rates in a timely fashion. While management is taking corrective actions to stabilize its balance sheet strength, these actions will need time to gain positive traction over the intermediate term.

This press release relates to Credit Ratings that have been published on AM Best’s website. For all rating information relating to the release and pertinent disclosures, including details of the office responsible for issuing each of the individual ratings referenced in this release, please see AM Best’s [Recent Rating Activity](#) web page. For additional information regarding the use and limitations of Credit Rating opinions, please view [Guide to Best’s Credit Ratings](#). For information on the proper use of Best’s Credit Ratings, Best’s Performance Assessments, Best’s Preliminary Credit Assessments and AM Best press releases, please view [Guide to Proper Use of Best’s Ratings & Assessments](#).

AM Best is a global credit rating agency, news publisher and data analytics provider specializing in the insurance industry. Headquartered in the United States, the company does business in over 100 countries with regional offices in London, Amsterdam, Dubai, Hong Kong, Singapore and Mexico City.

Related Companies

For information about each company, including the Best's Credit Reports, group members (where applicable) and news stories, click on the company name. An additional purchase may be required.

AMB#	Company Name
002478	State Farm General Insurance Company

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B7-3-01, General Property Insurance Requirements for All Property Types (12/14/2022)

Introduction

This topic contains information on property insurance requirements for insurers, including:

- [Overview](#)
- [Property Insurer Rating Requirements](#)
- [Exceptions to Insurer Rating Requirements](#)
- [Other Exceptions to Property Insurance Requirements](#)

Overview

The borrower has the right to select the insurer of their choice to provide property insurance for the subject property, provided that the insurance meets Fannie Mae's requirements. The lender or servicer must ensure that the insurer, policy, and coverage meet Fannie Mae's requirements. In some cases, Fannie Mae may require additional coverage that differs from these requirements.

Note: References to "lender or servicer" include the lender or seller at origination and the servicer for the duration of loan servicing.

Property Insurer Rating Requirements

The property insurance policy for the property securing any first mortgage, including master policies for project developments, must be written by an insurer that meets one of the rating requirements in the following table.

Rating Agency	Rating Category
AM Best Company	"B" or better Financial Strength Rating
Demotech, Inc.	"A" or better Insurance Financial Stability Rating
Kroll Bond Rating Agency	"BBB" or better Insurance Financial Strength Rating (IFSR)
S&P Global	"BBB" or better Insurer Financial Strength Rating

Note: An insurer is only required to meet the rating category requirement for one of the rating agencies, even if they are rated by multiple rating agencies.

Exceptions to Insurer Rating Requirements

The following are exceptions to Fannie Mae's insurer rating requirements:

- **Second Mortgages** — The property insurance policy for a property that secures a second mortgage does not have to be written by an insurer that meets Fannie Mae's rating requirements, unless Fannie Mae also has an interest in the first mortgage.
- **Mortgage Impairment (or Mortgagee Interest) Insurance** — If the lender or servicer, as applicable, is covered by a mortgage impairment (or mortgagee interest) insurance policy, and the issuer meets either the AM Best Financial Strength Rating or S&P Global Insurer Financial Strength Rating, as listed in *Property Insurer Rating Requirements*, Fannie Mae does not require confirmation that the borrower's property insurance coverage is with an insurer that meets Fannie Mae's rating requirements. However, in such instances, the lender should advise the borrower of Fannie Mae's requirements when it originates the loan.
- **Reinsurance Arrangements** — Policies written by an insurer that do not meet Fannie Mae's rating requirements are acceptable provided all conditions outlined in the following table are met.

✓	Conditions for Acceptable Reinsurance Arrangements
	The insurer is covered by reinsurance with a company that meets the AM Best Financial Strength Ratings or S&P Global Insurer Financial Strength Rating, as listed in <i>Property Insurer Rating Requirements</i> .
	The primary insurer and the reinsuring company are authorized (or licensed, if required) to transact business within the state where the property is located.
	The reinsurance agreement has a "cut-through" endorsement that provides for the reinsurer to become immediately liable for 100% of any loss payable by the primary insurer in the event the primary insurer becomes insolvent.
	Both the primary insurer and the reinsuring company execute an <i>Assumption of Liability Endorsement</i> (Form 858), or any equivalent endorsement that provides for 100% reinsurance of the primary insurer's policy and a 90-day written notice to Fannie Mae of the termination of the reinsurance arrangement. <div>Note: Form 858 (or the equivalent endorsement) must be attached to each insurance policy covered by the reinsurance agreement, unless the lender or servicer, as applicable, is covered by a mortgage impairment (or mortgagee interest) insurance policy.</div>
	The reinsurance agreement does not allow contributions or assessments to be made against Fannie Mae or to become a lien on the property that is superior to Fannie Mae's lien.
	The insurance written under the policy cannot exceed any dollar limitation amount specified in the reinsurance endorsement.

Other Exceptions to Property Insurance Requirements

Fannie Mae also accepts the following types of property insurance policies if they are the only coverage that can be obtained at the time of the loan closing or policy renewal:

- policies obtained through state or territory insurance plans, including a state's Fair Access to Insurance Requirements (FAIR) plan, or
- other state-mandated windstorm and beach erosion insurance pools.

Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
Announcement SEL-2022-10	December 14, 2022
Announcement SEL-2021-11	December 15, 2021

4703.1

General property insurance requirements

Effective 01/01/2023

For Mortgages sold to Freddie Mac, the Seller must ensure that the Mortgaged Premises are covered by insurance meeting the requirements in this Chapter 4703. The Seller must obtain evidence of insurance meeting the requirements of Section 8202.8.

(a) Licensing of insurer

All insurance companies (insurers) and insurance companies which guarantee coverages provided by other insurance companies (reinsurers) must be licensed, or otherwise authorized by law, to conduct business in the jurisdictions where the Mortgaged Premises are located.

(b) Assessments

Insurance contracts must provide that no assessment may be made against the Seller/Service or Freddie Mac and that any assessment made against others may not become a lien on the Mortgaged Premises superior to the lien of the Freddie Mac Mortgage.

(c) Rating of insurer

The required insurance must be provided by one of the following insurers:

1. An insurer with a current rating that meets the requirements below:
 - For an insurer rated by AM Best Company (AM Best), a minimum Financial Strength Rating of B+, as reported online at <http://www.ambest.com>

- For an insurer rated by Demotech, Inc., a minimum Financial Stability Rating of A as reported online at <http://www.demotech.com>
 - For an insurer rated by S&P Global, a minimum Insurer Financial Strength Rating of BBB as reported online at <http://www.standardandpoors.com>
 - For an insurer rated by Kroll Bond Rating Agency (KBRA), a minimum Insurance Financial Strength Rating of BBB as reported online at <https://www.kbra.com>
2. An insurer with coverage that is guaranteed by a reinsurer under all of the following conditions:
- The reinsurer's current rating meets the requirements below:
 - For a reinsurer rated by AM Best, a minimum Financial Strength Rating of B+; or
 - For a reinsurer rated by S&P Global, a minimum Insurer Financial Strength Rating of BBB
 - The reinsurer assumes by endorsement 100% of the insurer's liability for any covered loss payable but unpaid by the insurer for reason of insolvency
 - The reinsurer assumes by endorsement to give the policyholder, the Seller/Service and insurer 90-day written notice before canceling or otherwise terminating the guarantee
 - The above endorsements are attached to each property insurance policy accepted by the Seller/Service on account of the endorsements
3. A state insurance pool created by statutory authority to provide insurance for geographic areas or insurance lines which suffer from lack of voluntary market availability (such pool may be designated as a property insurance plan, a Fair Access to Insurance Requirements (FAIR) plan, an underwriting association, a joint underwriting association or an insurance authority)
4. A non-admitted insurer with a current rating that meets the requirements below:
- For an insurer rated by AM Best, a minimum Financial Strength Rating of A, or
 - For an insurer rated by S&P Global, a minimum Insurer Financial Strength Rating of AA-

5. An insurer with coverage that is guaranteed by the National Flood Insurance Program (NFIP) under a Standard Flood Insurance Policy issued pursuant to the National Flood Insurance Act of 1968, as amended

Insurers rated by more than one rating company need only meet one of the rating requirements.

GUIDE TO BEST'S FINANCIAL STRENGTH RATINGS – (FSR)

A Best's Financial Strength Rating (FSR) is an independent opinion of an insurer's financial strength and ability to meet its ongoing insurance policy and contract obligations. An FSR is not assigned to specific insurance policies or contracts and does not address any other risk, including, but not limited to, an insurer's claims-payment policies or procedures; the ability of the insurer to dispute or deny claims payment on grounds of misrepresentation or fraud; or any specific liability contractually borne by the policy or contract holder. An FSR is not a recommendation to purchase, hold or terminate any insurance policy, contract or any other financial obligation issued by an insurer, nor does it address the suitability of any particular policy or contract for a specific purpose or purchaser. In addition, an FSR may be displayed with a rating identifier, modifier or affiliation code that denotes a unique aspect of the opinion.

Best's Financial Strength Rating (FSR) Scale

Rating Categories	Rating Symbols	Rating Notches*	Category Definitions
Superior	A+	A++	Assigned to insurance companies that have, in our opinion, a superior ability to meet their ongoing insurance obligations.
Excellent	A	A-	Assigned to insurance companies that have, in our opinion, an excellent ability to meet their ongoing insurance obligations.
Good	B+	B++	Assigned to insurance companies that have, in our opinion, a good ability to meet their ongoing insurance obligations.
Fair	B	B-	Assigned to insurance companies that have, in our opinion, a fair ability to meet their ongoing insurance obligations. Financial strength is vulnerable to adverse changes in underwriting and economic conditions.
Marginal	C+	C++	Assigned to insurance companies that have, in our opinion, a marginal ability to meet their ongoing insurance obligations. Financial strength is vulnerable to adverse changes in underwriting and economic conditions.
Weak	C	C-	Assigned to insurance companies that have, in our opinion, a weak ability to meet their ongoing insurance obligations. Financial strength is very vulnerable to adverse changes in underwriting and economic conditions.
Poor	D	-	Assigned to insurance companies that have, in our opinion, a poor ability to meet their ongoing insurance obligations. Financial strength is extremely vulnerable to adverse changes in underwriting and economic conditions.

* Each Best's Financial Strength Rating Category from "A+" to "C" includes a Rating Notch to reflect a gradation of financial strength within the category. A Rating Notch is expressed with either a second plus "+" or a minus "-".

Financial Strength Non-Rating Designations

Designation Symbols	Designation Definitions
E	Status assigned to insurers that are publicly placed, via court order into conservation or rehabilitation, or the international equivalent, or in the absence of a court order, clear regulatory action has been taken to delay or otherwise limit policyholder payments.
F	Status assigned to insurers that are publicly placed via court order into liquidation after a finding of insolvency, or the international equivalent.
S	Status assigned to rated insurance companies to suspend the outstanding FSR when sudden and significant events impact operations and rating implications cannot be evaluated due to a lack of timely or adequate information; or in cases where continued maintenance of the previously published rating opinion is in violation of evolving regulatory requirements.
NR	Status assigned to insurance companies that are not rated; may include previously rated insurance companies or insurance companies that have never been rated by AM Best.

Rating Disclosure – Use and Limitations

A Best's Credit Rating (BCR) is a forward-looking independent and objective opinion regarding an insurer's, issuer's or financial obligation's relative creditworthiness. The opinion represents a comprehensive analysis consisting of a quantitative and qualitative evaluation of balance sheet strength, operating performance, business profile and enterprise risk management or, where appropriate, the specific nature and details of a security. Because a BCR is a forward-looking opinion as of the date it is released, it cannot be considered as a fact or guarantee of future credit quality and therefore cannot be described as accurate or inaccurate. A BCR is a relative measure of risk that implies credit quality and is assigned using a scale with a defined population of categories and notches. Entities or obligations assigned the same BCR symbol developed using the same scale, should not be viewed as completely identical in terms of credit quality. Alternatively, they are alike in category (or notches within a category), but given there is a prescribed progression of categories (and notches) used in assigning the ratings of a much larger population of entities or obligations, the categories (notches) cannot mirror the precise subtleties of risk that are inherent within similarly rated entities or obligations. While a BCR reflects the opinion of A.M. Best Rating Services, Inc. (AM Best) of relative creditworthiness, it is not an indicator or predictor of defined impairment or default probability with respect to any specific insurer, issuer or financial obligation. A BCR is not investment advice, nor should it be construed as a consulting or advisory service, as such; it is not intended to be utilized as a recommendation to purchase, hold or terminate any insurance policy, contract, security or any other financial obligation, nor does it address the suitability of any particular policy or contract for a specific purpose or purchaser. Users of a BCR should not rely on it in making any investment decision; however, if used, the BCR must be considered as only one factor. Users must make their own evaluation of each investment decision. A BCR opinion is provided on an "as is" basis without any expressed or implied warranty. In addition, a BCR may be changed, suspended or withdrawn at any time for any reason at the sole discretion of AM Best.

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Version 121719



01-Jul-2019 | 05:06 EDT

General Criteria: Group Rating Methodology

(**EDITOR'S NOTE:** On Dec. 17, 2024, we republished this criteria article to make nonmaterial changes. See the "Revisions And Updates" section for details.)

OVERVIEW AND SCOPE

1. This article describes S&P Global Ratings' methodology for rating entities that are part of corporate, financial institutions, insurance, and international public finance groups, as well as U.S. public finance obligated groups.
2. These criteria articulate the steps in determining an issuer credit rating (ICR) on group members and their holding companies. This involves assessing the group credit profile (GCP; i.e. the group's overall creditworthiness), the stand-alone credit profiles (SACP) of group members, and the status of an entity relative to other group entities.
3. The criteria also describe how we assess the potential for support (or negative intervention) from group entities, or from other external sources such as a government.

4. These criteria apply to corporate, financial institution, insurance, and international public finance entities that we consider part of a group and U.S. public finance entities that we consider part of an obligated group. For these entities, we believe that their ownership, control, influence, or support by or to another entity could have a material bearing on their credit quality. Examples of entities that are outside the scope of these criteria include project finance and corporate securitizations.

5. These criteria may complement other criteria that address sector-specific support considerations.

6. This methodology follows our request for comment, "[Request for Comment: Group Rating Methodology](#)," published Dec. 12, 2018.

Key Publication Information

- Original publication date: July 1, 2019
- These criteria address the fundamentals set out in "Principles Of Credit Ratings," Feb. 16, 2011.

METHODOLOGY

7. These criteria explain how we factor the potential for extraordinary support (or extraordinary negative intervention) into the ICR of an entity that is a member of a group. Such extraordinary support (or negative intervention) is beyond that which we already factor into the entity's SACR, as explained in "[Stand-Alone Credit Profiles: One Component Of A Rating](#)."

8. We factor the potential for extraordinary support or extraordinary negative intervention into the ICR even when the need for such support or the possibility for such negative intervention may appear remote.

9. We apply a six-step process for determining the ICR of group members (see chart 1), as follows:

(i) Identify the group parent and the group members (together called the group).

(ii) Assess the creditworthiness of the group (or subgroup) to determine a group SACP and GCP. The potential GCP is based on the group SACP, adjusted for potential external sources of extraordinary support if we believe such support will be extended to the group, or potential extraordinary negative intervention. Finally, we apply any relevant sovereign constraints to determine the GCP (see chart 2). See "[Ratings Above The Sovereign—Corporate And Government Ratings: Methodology And Assumptions](#)".

(iii) Assess the group status of each group member to be rated, if relevant.

(iv) Determine the SACP of group members to be rated, if relevant.

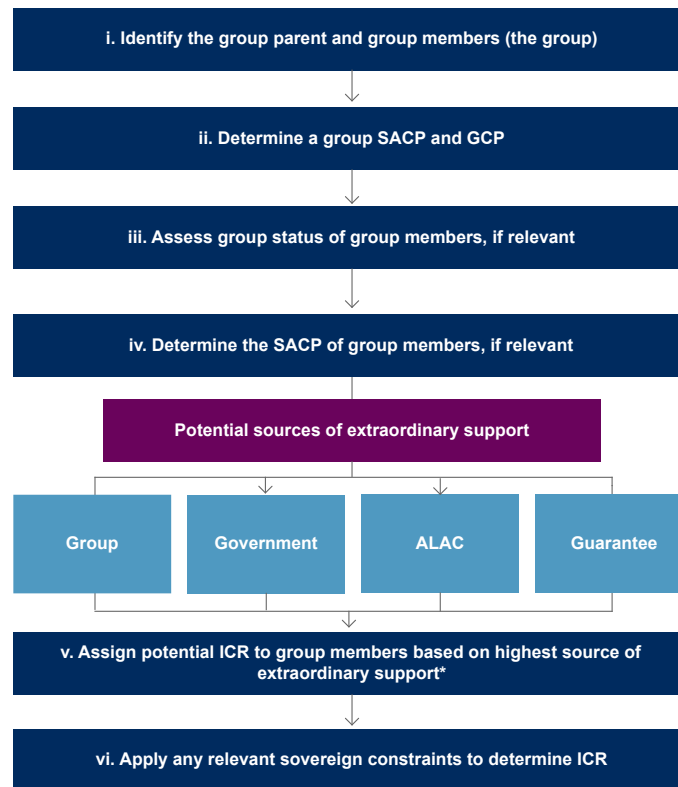
(v) Assign a potential (indicative) ICR to group members. The potential ICR is based on the entity's SACP, if relevant, and the potential for extraordinary support (or extraordinary negative intervention). Extraordinary support is the higher of any group or government influence, or other external support factors (such as additional loss-absorbing capacity (ALAC) support or a guarantee). This step also factors in the degree of insulation, if any, that a group member has from potential negative influence by other weaker group entities.

(vi) Assign the final ICR after taking into consideration any relevant sovereign constraints (see "

[Ratings Above The Sovereign—Corporate And Government Ratings: Methodology And Assumptions](#)

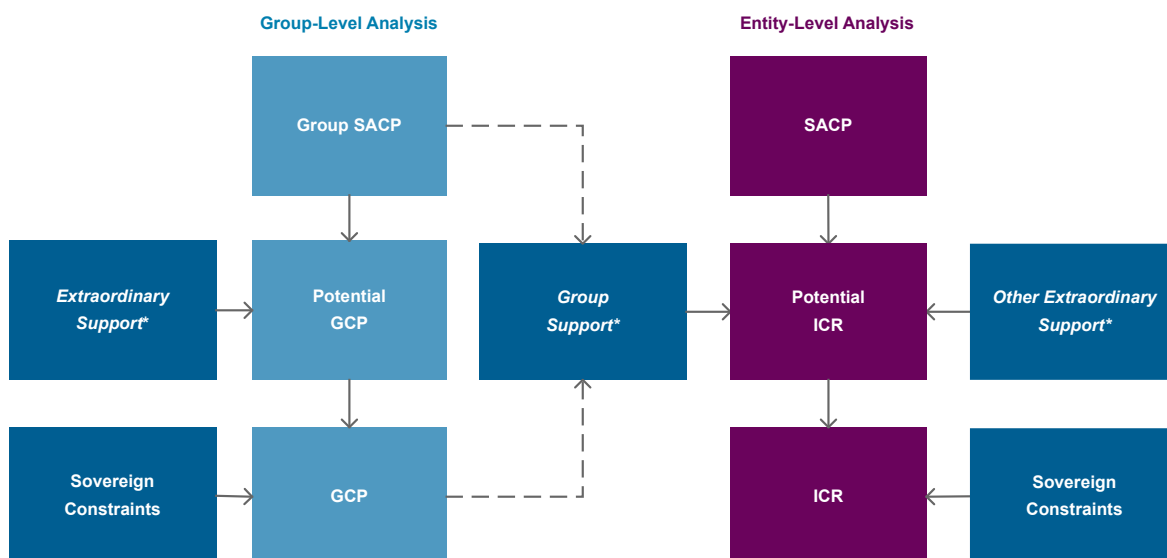
").

Chart 1
Determining The Issuer Credit Rating On Group Members



*Subject to any insulation. GCP--Group credit profile. Group SACP--Group stand-alone credit profile. SACP--Stand-alone credit profile. ALAC--Additional loss-absorbing capacity (applies to certain prudentially regulated entities or groups). ICR--Issuer credit rating.
Source: S&P Global Ratings. Copyright © 2019 by Standard & Poor's Financial Services LLC. All rights reserved.

Chart 2--Group Rating Methodology Framework



— — → The relevant reference for determining the impact of group support is either the group SACP or GCP.

GCP--Group credit profile. Group SACP--Group stand-alone credit profile. SACP--Stand-alone credit profile. ICR--Issuer credit rating. *Or negative intervention.

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10. These criteria define five categories of group status: core, highly strategic, strategically important, moderately strategic, and nonstrategic. These categories indicate our view of the likelihood that a group member will receive extraordinary support from the group (see table 1).

Table 1

Summary Of Associating An Entity's Group Status With A Potential ICR

Group status	Brief definition	Potential ICR*
Core	Integral to the group's current identity and future strategy. The rest of the group is likely to support these entities under any foreseeable circumstances.	GCP

Highly strategic	<p>Almost integral to the group's current identity and future strategy. The rest of the group is likely to support these group members under almost all foreseeable circumstances.</p>	<p>One notch lower than the GCP, unless the SACP on that entity is equal to, or higher than, the GCP. In such a case, the potential ICR is equal to the GCP.</p>
Strategically important	<p>Less integral to the group than "highly strategic" group members. The rest of the group is likely to provide support in most foreseeable circumstances. However, some factors raise doubts about the extent of group support.</p>	<p>Three notches above SACP. This is subject to a cap of one notch below the GCP, unless the SACP is at least equal to the GCP, in which case the potential ICR is equal to the GCP.</p>
Moderately strategic	<p>Not important enough to warrant support from the rest of the group in some foreseeable circumstances. Nevertheless, there is potential for some support from the group.</p>	<p>One notch above SACP. This is subject to a cap of one notch below the GCP, unless the SACP is at least equal to the GCP, in which case, the potential ICR is equal to the GCP.</p>
Nonstrategic	<p>No strategic importance to the group.</p>	<p>SACP, subject to a cap defined by the GCP.</p>

* The above conventions do not apply where: potential ICRs exceed the GCP due to insulation (see "Insulated Entities" section); the group SACP is used to determine uplift for group support (see "External support factors in the GCP" section); the GCP is 'ccc+' or lower (see paragraph 13); and when paragraph 42 applies.

11. A potential ICR on a group member that exceeds its SACP reflects our view of the likelihood of that entity, in a credit-stress scenario, receiving timely and sufficient group or government support (beyond that already factored into the SACP), thereby strengthening its creditworthiness. Examples of support include additional liquidity or capital to the group member, or one-off transfers of risk from the group member.

12. A potential ICR on a group member that is lower than its SACP reflects our view that if the group or relevant government were in a credit-stress scenario, the group or government would draw resources from the group member (an example of extraordinary negative intervention), thereby weakening its creditworthiness.

13. If the GCP is 'ccc+' or lower, the potential ICR on a group member cannot be lower than 'b-' unless the conditions for a potential ICR of 'ccc+' or lower are met (see "

Criteria For Assigning 'CCC+', 'CCC', 'CCC-', And 'CC' Ratings," henceforth referred to as "CCC criteria"). The potential ICR would include the potential for extraordinary negative intervention from the group or government.

Identifying The Group And Its Members

14. For the purposes of these criteria, the term "group" refers to the group parent and all the entities (also referred to as group members) over which the group parent has direct or indirect control.

15. The group parent is not necessarily the ultimate holding company in the group structure but is the top entity in the structure that we believe is relevant to the group's credit quality. Accordingly, additional holding companies may exist above the group parent, but be excluded from our group assessment if we believe they have no material liabilities or operating assets and therefore no bearing on the group's overall credit quality. The control chain may include several successive layers of controlling or joint-control interest in other entities. We would generally not consider a natural person, or entities such as family firms, foundations, managed fund, or financial sponsors, to be a group parent. Where we determine that an entity (for instance, an investment holding company) does not have control of an investee company, we do not consider that entity to be the group parent.

16. "Control" refers to the ability to direct a group member's strategy and the disposition of its cash flow. Control may be present even if the group owns 50% or less of the group member's shareholder capital.

17. We generally apply this methodology to an entire group, but may also apply it to a distinct subgroup. A subgroup focus may be appropriate when the subgroup and its components have a distinct credit profile that is separate from that of the broader group. This could be due to factors such as jurisdictional location, regulatory oversight, or support factors that

apply only to the subgroup. References to the term "group" in this methodology can apply to either a subgroup or a group viewed in its entirety.

The Group SACP And Group Credit Profile (GCP)

18. The group SACP and GCP are our opinions of a group's creditworthiness as if it were a single legal entity (subject to any potential restrictions on cash flows associated with insulated entities).

19. The group SACP and GCP are not ratings. They are components contributing to the determination of the ICRs on group members. The group SACP does not take into account sources of potential extraordinary support or negative intervention that we consider external to the assessed group. However, the potential GCP incorporates extraordinary external support that we believe is available to the group, or conversely, extraordinary negative intervention. Finally, the GCP takes into consideration any relevant sovereign constraints. See "

[**Ratings Above The Sovereign—Corporate And Government Ratings: Methodology And Assumptions**](#)

."

20. Group SACPs and GCPs range from 'aaa' (the highest assessment) to 'd' (the lowest assessment), on a scale that parallels the ICR ('AAA' to 'D'). The lowercase letters indicate their status as a component of a rating rather than as a rating. Like ICRs, group SACPs and GCPs can carry the modifier "+" or "-". Typically, a group SACP or GCP is 'd' only in the case of a generalized group default. In the case of a legal entity within a group, we lower the ICR on that entity to 'D' or 'SD' (selective default) only if we determine the entity is in default (see "[**S&P Global Ratings Definitions**](#)").

21. To determine the group SACP and GCP, we assess the consolidated group using the relevant sector methodologies. The assessed group includes all group entities that we believe have a bearing on the group's credit quality (as per the explanation detailed in the section "Identifying The Group And Its Members"), and may potentially deconsolidate insulated entities as per the "Insulated Entities" section. We typically conduct the assessment of the group SACP and GCP as though the group were a single legal entity.

22. For cross-sector groups (including their holding companies), the specific rating methodology applied to assess the group SACP is the one relevant for the operations that most strongly influence the group's credit profile. This influence can reflect the amount of capital employed, level of earnings, cash flow, dividend contribution, or other relevant metric. However, where the analysis of consolidated financial statements using a single sector's criteria framework may not produce a meaningful picture of credit quality, we may apply a combination of rating methodologies to assess the group SACP. This may be done by applying the relevant methodologies to determine SACPs for the different group members. We would then aggregate these SACPs to derive the overall group SACP. The group SACP would also include adjustments to account for any benefits or risks not captured in the aggregation of the component SACPs.

a) Multiple ownership and joint ventures

23. If a group member is under the joint control of at least two parents--for example, a joint venture (JV)--the insolvency or financial difficulty of one parent may have less impact than if the entity had a single parent.

24. For JVs, we may attribute support from one of its owners (JV partner) even if the JV partner does not have majority ownership in the JV. We typically attribute support from the JV partner that would result in the highest potential ICR on the JV. This would apply where we believe the JV partner would support the JV, regardless of the actions of the other owners. This could include situations where that JV partner makes day-to-day business decisions, or the JV is of critical importance to the supporting JV partner's operations or strategy. In such cases, however, the group status of the JV to the JV partner would typically not exceed strategically important. In addition, we would also take the potential resource demands of the JV on the JV partner into consideration when determining the JV partner's credit profile.

25. The analytical approach for a group's jointly owned business operations, such as whether to fully consolidate, partially consolidate, or equity account the operations when assessing the group SACP, is determined by the relevant methodologies for assessing corporates, financial institutions, insurance companies, or other entity types.

26. In cases where a shareholder agreement or similar arrangement exists that we believe would prevent an otherwise controlling parent from directing the strategy and cash flows of a group member, we may assess that control is not present. When we determine control is not present, we would typically treat the member as an equity affiliate and consider only the projected dividend flows from that member in our group SACP assessment.

b) Insulated entities

27. Where we determine that consolidating an insulated group member does not adequately capture the impact on the group SACP of any material restrictions on cash flows or financial resources within the group, we either:

- Adjust the group SACP down (typically by one or two notches); or
- Treat an insulated group member as an equity affiliate, and reflect this deconsolidated approach in determining the group SACP.

28. When assessing a group that has a bank subsidiary with a potential ICR that is above the GCP either because it is of high systemic or moderate systemic importance (as per "[Financial Institutions Rating Methodology](#)"), in the country where it is domiciled, or because of ALAC support, the group SACP will take into account the impact of any local restrictions on the flow of capital, funding, and liquidity, and any implications for the business and risk positions of the parent.

c) Entities owned by a financial sponsor

29. If the owner of a group entity is a "financial sponsor" (see Glossary), the potential ICR on that group entity does not directly factor in the likelihood of support from the financial sponsor, nor is it directly constrained by our view of the financial sponsor's creditworthiness. However, the financial sponsor's ownership may still affect the potential ICR through the application of the relevant sector-specific criteria.

30. The group SACP for a group owned by a financial sponsor may, however, include one or more intermediate holding companies of the operating entity, but would exclude the financial sponsor's own financials and its other holdings. This approach reflects our view that an intermediate

holding company's primary purpose is to acquire, control, fund, or secure financing for its operating companies, and is generally reliant on those companies' cash flow to service its financial obligations.

d) U.S. public finance obligated groups

31. U.S. public finance obligated groups typically consist of a group of entities that are cross-obligated as security for specific debt. Obligated group structures are most commonly used by not-for-profit hospitals, health systems, and senior living organizations.

32. Obligated groups are created for purposes of securing debt, and do not have operating or governance independence from the larger group. While debt covenants may contain some restrictions, for example limitations on the transfer of assets out of the obligated group, covenants are generally not strong enough to insulate the obligated group from the strategic and operating influence of the group. An obligated group, therefore, is typically not rated higher than the GCP.

33. Individual obligated group members may have separate legal incorporation and varying strategic value to the group. However, since the purpose of the obligated group is to secure debt on a joint and several basis, group status will be determined for the obligated group as a whole, not for its individual members. In applying these criteria, we consider obligated groups a single entity.

34. Most U.S. public finance ratings are issue ratings, although we sometimes assign ICRs. The issue rating could differ from the ICR based on the specific security package for the rated bonds. We expect that, barring subordination or structural enhancement, U.S. public finance issue ratings will generally be the same as the ICR.

e) External support factors in the GCP

35. Government support. The potential for extraordinary government support can be factored into either the ICRs of certain group members or the GCP, depending on the nature of this support (see [Rating Government-Related Entities: Methodology And Assumptions](#) [GRE criteria], and [Financial Institutions Rating Methodology](#)). We use the group SACP as a basis from which to determine the GCP when using the government support tables in the GRE criteria or bank criteria.

36. The assessment considers whether government support, driven by GRE status or systemic importance, would likely accrue to all or only some members of the group (see table 2).

37. To determine the potential ICR for a particular group member, where the assessment indicates that the government:

- Is likely to extend such extraordinary support directly to that entity (bypassing the group), any uplift for such support is added to the SACP of that entity in determining the potential ICR;
- Is likely to extend such extraordinary support indirectly, via the group, to the entity, the reference point for determining any uplift for group support (or negative group intervention) is the GCP (which would include uplift, if any, for extraordinary government support); or
- Is unlikely to extend such extraordinary support to the entity, the reference point for determining any uplift for group support is the lower of the group SACP or the GCP.

Table 2

Rating Government-Supported Entities--Likelihood Of Government Support Versus Group Support

SACP level	If the subsidiary is likely to benefit directly from extraordinary government support *	If the subsidiary is likely to benefit from extraordinary government support indirectly through the group	If the subsidiary is unlikely to benefit from extraordinary government support either directly or indirectly
SACP is lower than the group SACP	Potential ICR = Higher of (i) the SACP plus uplift for government support, or (ii) SACP plus uplift for group support. The outcome is subject to a cap at the level of the GCP (unless the subsidiary is insulated).	Potential ICR = SACP plus uplift for group support (with reference to the GCP)	Potential ICR = SACP plus uplift for group support (with reference to the lower of the group SACP or the GCP)
SACP is higher than or equal to the group SACP	Potential ICR = SACP plus uplift for government support, subject to a cap at the level of the GCP (unless the subsidiary is insulated)	If $SACP < GCP$, potential ICR = SACP plus uplift for group support (with reference to the GCP). If $SACP \geq GCP$, potential ICR = SACP, subject to a cap at the level of the GCP (unless the subsidiary is insulated).	Potential ICR = SACP, subject to a cap at the level of the GCP (unless the subsidiary is insulated)

No SACP	SACP required, unless subsidiary is a GRE with almost certain likelihood of government support*	If core, potential ICR = GCP. If highly strategic, potential ICR = GCP - 1.	If core, potential ICR = lower of the GCP or group SACP. If highly strategic, potential ICR = lower of the GCP - 1 or group SACP - 1.
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* See GRE criteria for further details, including when an SACP is not required for entities with almost certain likelihood of government support. SACP--Stand-alone credit profile. ICR--Issuer credit rating.

38.ALAC support. The potential for extraordinary external ALAC support can be factored into either the ICRs on certain group members or the GCP, depending on the nature of this support (see "[Financial Institutions Rating Methodology](#)"). To determine the potential ICR on a particular group member, where the assessment indicates that ALAC support in the GCP:

- Is likely to extend indirectly, via the group, to the entity, the reference point for determining any uplift for group support (or negative group intervention) is the GCP; or
- Is unlikely to extend to the entity, the reference point for determining any uplift for group support is the lower of the group SACP or the GCP.

Assigning The Issuer Credit Rating

39. A potential ICR on a group member reflects its SACP (if relevant) and the potential for external extraordinary support (or negative intervention). We then determine the final ICR by applying any relevant sovereign constraints to the potential ICR.

40. We determine the potential ICR as follows, unless paragraph 41 applies:

- Core group entity is equal to the GCP;
- Highly strategic entity is one notch lower than the GCP, unless the SACP on that entity is equal to, or higher than, the GCP. In such a case, the potential ICR is equal to the GCP;
- Strategically important entity is rated three notches higher than its SACP. This is subject to a cap of one notch below the GCP, unless the SACP is at least equal to the GCP, in which case the potential ICR is equal to the GCP;
- Moderately strategic entity is rated one notch higher than that entity's SACP. This is subject to a cap of one notch below the GCP, unless the SACP is at least equal to the GCP, in which case, the potential ICR is equal to the GCP; or
- Nonstrategic entity is rated the same as that entity's SACP, subject to a cap defined by the GCP.

41. The above conventions do not apply where: the potential ICR exceeds the GCP due to insulation (see "Insulated Entities" section); the group SACP is used to determine uplift for group support (see "External support factors in the GCP" section); the GCP is 'ccc+' or lower (see paragraph 13); or when paragraph 42 applies.

42. We may apply a one-notch adjustment to determine the potential ICR (as described in paragraph 40) to better reflect our holistic view of potential extraordinary group support. This adjustment is only applicable if we have determined an SACP and the gap between the potential ICRs, based on group status assessments of highly strategic and strategically important, is at least three notches. The adjustment, if applicable, is as follows:

- When the group status is highly strategic, we may apply a negative one-notch adjustment. The potential ICR could, therefore, be two notches lower than the GCP rather than one notch; or
- When the group status is strategically important, we may apply a positive one-notch adjustment. The potential ICR could, therefore, be four notches higher than its SACP rather than three notches.
- For example, if we determine an entity exhibits characteristics consistent with a highly strategic entity, while a change in group status to strategically important could lead to a potential ICR change of three notches, the potential ICR could be two notches below GCP while the group status remains highly strategic; alternatively, if we determine the entity now exhibits characteristics consistent with a strategically important entity, we will revise the group status to strategically important and the potential ICR could be four notches above the SACP.

Group Status Of Individual Members

43. A group member's group status reflects the extent and timeliness of extraordinary support we expect it will receive from the rest of the group when that entity is under credit stress. We may also assess a group member's group status to a subgroup and the group status of a subgroup to a broader group. This section describes the framework that supports the classification of a member's group status into one of five categories:

- Core;
- Highly strategic;
- Strategically important;
- Moderately strategic; or
- Nonstrategic.

44. The determination of an SACP for a group member categorized as core or highly strategic is not necessary unless otherwise required or analytically relevant. A group status is not necessary for insulated entities, unless otherwise required or analytically relevant.

a) Core entities

45. A core entity exhibits features highly consistent with the group's franchise, supports the realization of group strategic objectives, and is expected to attract extraordinary support, if required, under any foreseeable circumstance. A core entity would also generally be expected to exhibit all the following characteristics:

- Is highly unlikely to be sold;
- Operates in lines of business or functions (which may include group risk management and financing) that are very closely aligned with the group's mainstream business and customer base. The entity also often operates in the same target markets;
- Has a strong, long-term commitment of support from the group in benign and under stressful conditions, or incentives exist to induce such support (e.g., cross-default clauses in financing documents, or the entity plays an integral role in group risk management or financing);
- Is reasonably successful at what it does or does not have ongoing performance problems that could result in underperformance against the group's specific targets and group earnings norms over the medium to long term;
- Either constitutes a significant proportion of the consolidated group or is fully integrated with the group;
- Is closely linked to the group's reputation, name, brand, or risk management;
- Has typically been operating for about five years or more; and
- Has been established as a separate entity for legal, regulatory or tax reasons, but otherwise operates more as part of a profit center or division integral to the group.

b) Highly strategic entities

46. A highly strategic group entity generally exhibits almost all of the characteristics of a core entity, and differs only narrowly regarding the extent of expected extraordinary support from the group. An entity assessed as highly strategic is generally expected to have a long-term

commitment from the group. There may be situations in which support for the highly strategic entity will be limited, for instance, to preserve the viability of core entities of the group.

c) Strategically important entities

47. We assess an entity as strategically important when we expect it to receive extraordinary support from the group in most foreseeable circumstances; however, there are some doubts about the extent of group support that precludes it from a higher support category. Strategically important subsidiaries would however typically exhibit all the following characteristics:

- Is unlikely to be sold;
- Is important to the group's long-term strategy;
- Has the long-term commitment of the group, or incentives exist to induce such support (e.g., cross-default clauses in financing documents); and
- Is reasonably successful at what it does or has realistic medium-term prospects of success relative to the group's specific expectations or group earnings norms.

d) Moderately strategic entities

48. When an entity does not exhibit the characteristics for a higher level of group support, but we expect it to receive extraordinary support in some foreseeable circumstances, it is typically considered moderately strategic. Moderately strategic entities are also typically important to the group's long-term strategy or are (or are expected to become) reasonably successful at what they do.

e) Nonstrategic entities

49. When an entity does not exhibit the characteristics of core, highly strategic, strategically important, or moderately strategic, it is categorized as nonstrategic.

Captive (re)insurer

50. A captive (re)insurer may also be assessed as core if it sources its (re)insurance business from companies within the group and writes no, or an immaterial amount, of third-party business. A captive (re)insurer may also be assessed as highly strategic if third-party business is a modest portion of its overall business operations.

Captive finance

51. When assessing group status for captive finance subsidiaries, the attributes we examine to determine group status should be considered within the context of all the following unique factors that captive finance subsidiaries typically provide to their group's marketing efforts:

- The percentage of the group's products sold via the subsidiary (penetration rate). For diversified groups, the percentage of total sales may be less important than the percentage of certain specific product lines. In turn, we consider the importance of these products to the overall performance of the group;
- The alternatives available to sell the group's products; and
- The costs and challenges in conducting its own financing. For some entities, funding costs may outweigh the benefits--or it may become difficult to gain access to capital.

Branches

52. For financial services entities, a branch is part of a legal entity that is typically at another geographic location. A branch therefore has the same creditworthiness as the legal entity, unless the branch is in another country and the actions of that sovereign could affect the branch's ability to service its obligations. See "

[Ratings Above The Sovereign--Corporate And Government Ratings.](#)" With respect to financial institutions, see also "[Financial Institutions Rating Methodology.](#)"

U.S. public finance obligated groups

53. U.S. public finance obligated groups could be considered core if they contain the majority of the organization's primary operating facilities, such as its hospitals or senior living facilities.

Financing subsidiaries

54. A financing subsidiary of a financial institution or corporate group may be assessed as core when it plays an integral role in group financing, its sole activity is to raise debt on behalf of the group, and it is wholly owned. Such subsidiaries often share a related corporate name with their parents.

55. A financing subsidiary of an insurance group, while generally not assessed as core, is typically assigned a rating as if it is a holding company.

Credit-substitution guarantee of group entities

56. When all of a group member's present and future financial obligations are guaranteed, and the guarantor is obliged to pay that group member's obligations even if the group member defaults, we assign a rating to the group member that reflects the higher of two outcomes:

- A rating reflecting the creditworthiness of the group member absent the benefit of the guarantee; or
- A rating reflecting the creditworthiness of the guarantor (see "[Guarantee Criteria](#)").

57. Our assessment of the terms of any intragroup guarantees determines whether a payment default on the part of a group entity is viewed as a default by the guarantor (see "[S&P Global Ratings Definitions](#)").

Loan participation notes (LPNs)

58. We rate LPNs and equivalent securities (such as trust preferred) issued by a special-purpose vehicle (SPV) on behalf of a corporate, financial institution, or insurance entity (including their holding companies) at the same level as we would rate an equivalent-ranking debt of its underlying borrower (the LPN sponsor) (and treat the contractual obligations of the SPV as financial obligations of the LPN sponsor) provided that all the following conditions are met:

- All of the SPV's debt obligations are backed by equivalent-ranking obligations with equivalent payment terms issued by the LPN sponsor;
- The SPV is a strategic financing entity for the LPN sponsor set up solely to raise debt on behalf of the LPN sponsor's group; and
- We believe the LPN sponsor is willing and able to support the SPV to ensure full and timely payment of interest and principal when due on the debt issued by the SPV, including payment of any expenses of the SPV.

59. As a consequence, we assign a 'D' or 'SD' ICR to the LPN sponsor if the SPV fails to make payments on the debt when due, as we would typically do in case of default on a similarly ranking debt issuance of the LPN sponsor (see also "[S&P Global Ratings Definitions](#)").

60. For multiple LPN sponsor SPVs, or SPVs that do not meet all the conditions above, the relevant structured finance criteria apply, which may include "

[Asset Isolation And Special-Purpose Entity Criteria—Structured Finance](#)" and "[Global Methodology For Rating Repackaged Securities](#)."

Dedicated supplier/purchaser relationships

61. Group members are typically owned or controlled by the group parent. However, a dedicated supplier/purchaser relationship can create an economic incentive for the supplier to support the purchaser, despite having only a minority ownership interest or none at all. We define the group in this instance as the supplier and the purchaser. A supplier may provide support sufficient for the purchaser to be considered moderately strategic to the supplier when the purchaser comprises a meaningful portion of the supplier's sales, cash flow, volume, or other measure. Such relationships typically have all the following characteristics:

- The term of the supplier/purchaser agreement is either perpetual or long term;
- There is evidence of the supplier's willingness and ability to provide financial support to the purchaser. We determine this by looking at prior loans, capital investments, or marketing support given to the purchaser; and
- The purchaser is closely linked to the supplier's reputation, name, or brand.

Entities with interlocking business relations

62. We can apply this methodology to groups of entities with interlocking business relations even in the absence of control, as defined in the criteria. Group membership will be based on meeting at least four of the following conditions:

- Name affiliation;
- Common management;
- Common board composition or common board control;
- Shared corporate history;
- Common business ties;
- Common financing of group entities;
- Shared corporate support functions; or
- Cross ownership holdings.

In such cases, we determine the GCP by determining the group members' SACP's and aggregating them based on the relative importance of each group member, as we do for the cross-sector groups. Members of this type of group can only be assigned a group status of strategically important, moderately strategic, or nonstrategic.

Insulated Entities

63. Financial stress within the group can negatively affect the creditworthiness of group entities. Accordingly, in such cases a potential ICR on an entity is typically limited by the GCP. This is notably because:

- The group could potentially transfer assets from one group entity to another during financial stress, contributing to credit stress at other group entities;
- The distress at the group could trigger business or financial difficulties at the group member. For instance, the group's problems could cause reputational damage of the group member and a loss of business;
- The group member might rely on operational support from the group on an ongoing basis; and
- In some jurisdictions, a bankruptcy petition by one group entity could include or cause other group entities to go into bankruptcy or similar measures.

64. Some entities (which for the purposes of this section, could also apply to a subgroup) may be insulated, segmented, or ring-fenced from their group, from a credit risk perspective. Such insulation may lead to the rating on the entity being higher than the GCP. The lower the likelihood that the creditworthiness of the entity would be impaired by a credit stress scenario for the group, the greater the potential difference between the potential ICR on the entity and the GCP. That said, we would typically not apply insulation to a group member when group entities above the group member, including the group parent, have debt but do not have significant other assets, either directly or indirectly. In such a case, the financial resources of the group member (where insulation is being contemplated) would be the only source of repayment for debt issued by group entities above it.

65. The potential ICR of an insulated entity is one notch higher than the GCP in cases where the entity is operationally separated from the group and the entity's SACP (or the SACP plus the potential for government

support or ALAC) is at least one notch higher than the GCP. Key characteristics of an operationally separated entity would generally include all of the following:

- The entity holds itself out as a separate entity, its financial performance and funding are highly independent from the group, it has no significant operational dependence on other group entities, and it maintains its own records and funding arrangements and does not commingle funds, assets, or cash flows with them;
- There is a strong economic basis for the group to preserve the entity's credit strength; and
- We do not expect a default of other group entities to directly lead to a default of the insulated entity.

66. The potential ICR of an insulated entity is two notches above the GCP if, in addition to being eligible for one notch of insulation, the group's control of the entity is limited by independent parties, and the entity's SACP (or the SACP plus the potential for government support or ALAC) is at least two notches above the GCP. Limited control would generally be characterized by at least one of the following:

- There are significant minority shareholders with an active economic interest;
- Independent directors have effective influence on decision making, including dividend policy and bankruptcy filings; or
- There are strong legislative, regulatory or similar restrictions that would inhibit the entity from supporting the group to an extent that would unduly impair the entity's stand-alone creditworthiness.

67. The potential ICR on an insulated entity is three notches above the GCP if, in addition to the entity being eligible for two notches of insulation, there are material structural safeguards to protect the entity from group influence, and the entity's SACP (or the SACP plus the potential for

government support or ALAC) is at least three notches above the GCP. Structural safeguards that protect the entity from group influence would generally include at least one of the following:

- The regulator or appropriate legislative body is expected to act, or has acted, to protect the credit quality of the entity, for example to prevent the entity from supporting the group to an extent that would in turn impair its stand-alone creditworthiness;
- There are both: protective governance arrangements (such as independent directors with an effective influence on decision making); and either significant minority shareholders or joint venture partners, with an active economic interest;
- There is an independent trustee or equivalent governance arrangement that can enforce the rights of third parties, and we expect the trustee (or equivalent) to act upon that right; or
- The government or other governmental agency (i) has the authority to change ownership of the entity via existing legislation or other legal powers to separate it from a troubled group; and (ii) we expect it to act upon that right, based, for example, on a statement of intent to do so, or a track record of proactive stress management under similar circumstances.

68. The potential ICR of an insulated entity could be de-linked and therefore not constrained by the creditworthiness of the group if the conditions in either (a) or (b) are met:

(a) In addition to being eligible for three notches of insulation as described in the preceding paragraph:

- We believe that the parent company doesn't exert control due to substantial creditor protections and as a result is unable to adversely impact the entity's credit quality; and
- The entity benefits from governance constraints that severely limit the influence of the parent, preventing it from determining matters such as strategy, material change of business, dividend payments and other material cash flows, and bankruptcy filings. These may arise, for example, due to statutory powers or contractual constraints.

(b) We determine that there is sufficient evidence that significant group credit stress has had minimal impact on the entity's credit profile, and that we do not expect it to have a material negative influence going forward.

69. With respect to our assessment of insulation of captive finance subsidiaries, we could view a captive finance entity as operationally separated from the group when it is able to stand on its own by taking over or subcontracting certain functions previously provided by other group entities. Given the nature of a captive finance entity's business model, we would expect it to retain commercial ties with its group.

70. The potential ICR of a bank subsidiary is typically not subject to a cap linked to the GCP where either: (i) the entity's SACP plus the potential for government support is above the GCP because it is of high systemic or moderate systemic importance (according to "[**Financial Institutions Rating Methodology**](#)"), in the country where it is domiciled; or (ii) the entity's SACP plus the potential for ALAC support is above the GCP (see "[**Financial Institutions Rating Methodology**](#)"). However, where we expect the nature and extent of extraordinary negative group intervention could impact the entity's creditworthiness, although to an extent sufficiently limited that a cap linked to the GCP would not apply, we

may apply a one-notch negative adjustment when determining the potential ICR. This adjustment is to better capture our holistic view of potential extraordinary negative group intervention.

Holding Companies

71. For holding companies of corporate groups and nonregulated nonbank financial institutions, the ICR is typically the same as the GCP. For intermediate holding companies of corporate groups and nonregulated nonbank financial institutions, the ICR is typically the same as the rating on its core operating entities.

Holding companies of prudentially regulated financial services groups

72. Holding companies are typically reliant on dividends and other distributions from operating companies to meet their obligations. The rating of holding companies of prudentially regulated financial services groups reflects the difference in their creditworthiness relative to the group's operating entities. The rating differential is mainly due to the increased credit risk that arises from possible regulatory constraints to upstream resources and potentially different treatment under a default scenario.

73. For holding companies of prudentially regulated financial institution groups, the ICR is generally:

- One notch lower than the GCP if the GCP is 'bbb-' or higher; or
- At least two notches lower than the GCP if the GCP is 'bb+' or lower.

74. For holding companies of insurance groups, the ICR is generally:

- Two notches lower than the GCP if potential regulatory restrictions to payments are considered low in jurisdictions accounting for the majority of distributions (typically as measured by dividends, cash flows, or earnings) from operating entities to the holding company; or
- Three notches lower than the GCP if potential regulatory restrictions to payments are considered high in jurisdictions accounting for the majority of distributions (typically as measured by dividends, cash flows, or earnings) from operating entities to the holding company.

75. The notching from the GCP to derive the ICR of a holding company of a financial services group may be narrower than the standard notching in paragraphs 73 or 74, or potentially eliminated, if:

- The holding company directly controls multiple material operating units that are sufficiently diverse and independent such that the suspension of cash flows from any of its operating entities would not substantially weaken the holding company's financial position;
- The potential for regulatory restrictions to payments is significantly lower than we typically observe for prudentially regulated entities and is not adequately reflected in the standard notching;
- The holding company generates sufficient cash flows from its own business activities or from unregulated operating subsidiaries to meet its obligations; or
- The potential for regulatory restrictions on distributions from operating entities is mitigated by our expectation that the holding company will regularly maintain significant unencumbered cash or high-quality liquid fixed-income investments to meet its obligations.

76. The notching from the GCP to derive the ICR on a holding company of a financial services group may be wider than the standard notching in paragraphs 73 or 74 if:

- The holding company itself carries significant asset or liability risks that are not fully captured in our standard notching;
- There are elevated liquidity risks at the holding company, most notably when it has significant debt maturities and other financial obligations relative to its unencumbered cash and liquid assets held or to which it has ready access. For example, high double leverage for a financial institution can reflect elevated liquidity risks;
- There are heightened risks of regulatory constraints or other material restrictions to payments that are not adequately captured in the standard notching; or
- The GCP is higher than the group SACP owing to external extraordinary support that is not expected to accrue to the holding company. In this case, we apply the typical notching from the group SACP rather than the GCP.

77. If the GCP is 'b-' or lower, or if notching would otherwise result in a rating of 'CCC+' or lower, the ICR on a holding company is no lower than 'B-' unless the conditions for an ICR of 'CCC+' or lower are met (see "CCC criteria").

78. We typically notch down the ICR on an intermediate holding company of a financial services group or subgroup from the rating assigned to its core operating entities by applying the same notching we would to a holding company of the group. We may, however, narrow the notching or potentially eliminate the notching if we expect the group to provide extraordinary support for the subsidiaries of the intermediate holding company by investing in the intermediate holding company. We may widen the notching if there are additional risks relating to cash flows from its operating entities or risk relating to the expected extraordinary support from the group.

Rating Group Entities Above The Sovereign

79. The general criteria for rating a group member above the relevant sovereign rating, which is usually the country of domicile of the group member, are in ratings above the sovereign criteria (see Related Criteria).

80. The ICR on a group member is the lower of the potential ICR derived from these criteria or the relevant foreign currency sovereign rating. This would not be the case, however, in the situations outlined below, where we determine the group member's ICR as the highest of a, b, or c:

(a) If the group member passes the appropriate sovereign stress test (without considering group or government support), the result from the combination of the potential ICR derived from these criteria (excluding uplift for group or government support) and the provisions in our ratings above the sovereign criteria;

(b) For a group member where the relevant foreign currency sovereign rating is lower than 'B-', the ICR is no lower than 'B-' (unless T&C restrictions in Ratings Above the Sovereign criteria are applicable) if the conditions for an ICR of 'CCC+' or lower are not met (see "CCC criteria"); or

(c) If we believe the group is willing and able to sufficiently support the group member during the stress associated with a sovereign default, the highest of (i) to (v) below:

- (i) For a group member that has a potential ICR based on a guarantee that meets our credit substitution criteria, the potential ICR;
- (ii) For a financial institution or insurance group member that has less than 10% exposure to the jurisdiction of domicile and we consider the risks (e.g. a deposit freeze or monetary-union exit) associated with that jurisdiction are immaterial, the potential ICR;
- (iii) For core group members of financial institution groups, the lower of the potential ICR derived from these criteria, or up to two notches above the relevant foreign currency sovereign rating;
- (iv) For core group members of insurance or corporate groups, the lower of the potential ICR derived from these criteria, or three notches above the relevant foreign currency sovereign rating; or
- (v) For highly strategic group members of insurance or corporate groups, the lower of the potential ICR derived from these criteria, or two notches above the relevant foreign currency sovereign rating.

GLOSSARY

81. ALAC: Additional loss-absorbing capacity. These are securities issued by certain prudentially regulated entities (see Related Criteria) that can absorb losses at or near non-viability--for example, in the event of a bank resolution, in a way that reduces the risk of the bank defaulting, according to our definitions, on its senior unsecured obligations.

82. Captive finance subsidiary: A captive finance subsidiary (as opposed to a financing subsidiary) provides financing for the purchase of the group's products. (For a full definition, see "

[The Impact of Captive Finance Operations On Nonfinancial Corporate Issuers](#)

").

83. Captive (re)insurer: A member of an insurance, corporate, or financial institutions (FI) group that mainly insures risks of other group entities. Captive (re)insurers typically show a very high degree of integration with a group's financial and risk management strategy.

84. Double leverage (for financial institutions only): We define double leverage (DL) for FI groups as holding company investment in subsidiaries divided by holding company (unconsolidated) shareholder equity. Holding companies often issue hybrid capital securities that build regulatory capital. They invest the proceeds in operating subsidiaries as equity or as similarly structured hybrid securities. We calculate DL in two ways: (1) with a common equity double-leverage measure that treats hybrid capital as debt, and (2) with a total equity double leverage measure that treats hybrid capital as equity.

85. Equity affiliate: Also defined in our corporate criteria as "unconsolidated equity affiliates." These are entities that are not consolidated in an issuer's financial statements. Therefore, the earnings and cash flows of the affiliate are not typically included in our primary metrics (see "[Corporate Methodology](#)").

86. Extraordinary negative intervention: Potential extraordinary negative intervention by one or more members of a group. Examples include the extraction of unexpected extraordinary dividends or asset or cash stripping the issuer at the behest of the group to service other obligations of the group.

87. Extraordinary support: We consider support as extraordinary when it is entity specific, nonrecurring, and typically related to financial stress at the entity. Examples include but are not limited to recapitalization with common equity or hybrids, liquidity injections to the group member, or one-off transfers of risk from the group member.

88. Financial institution: Entities that are in-scope for our bank and nonbank FI methodologies.

89. Financial services sector: Consists of financial institutions and insurance companies.

90. Financial sponsor: We define a financial sponsor as an owner that does not have a long-term strategic interest in a company. Rather, the financial sponsor is a financial investment firm primarily motivated to increase the value of its investment by improving its management, capital, or both, typically with the ultimate goal of liquidating the investment. Financial sponsors include, but are not limited to, private-equity firms, hedge funds, and venture capital firms.

91. Holding company (may also be referred to as a group parent): A legal entity that is the owner of at least one group member that conducts business activities, though it may not carry out its own business activities (e.g. a non-operating holding company). A holding company may also provide services to subsidiaries such as investment and treasury management.

92. Insurance company (or insurers): Entities that are in scope for our insurance ratings methodologies.

93. Intermediate holding company: A legal entity that is a group member and legal owner of at least one other group member that conducts business activities, though it may not carry out its own business activities.

94. Parent: An entity with controlling or joint-control interest in another entity or a joint venture.

95. Prudentially regulated: This refers to the regulation of a financial services entity by one or more regulatory authorities who set standards for, among other things, capital adequacy and potential restrictions on distributions. We generally regard banks and insurers as prudentially regulated sectors.

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APPENDIX

103. This appendix provides additional information and guidance relating to the analytical application of these criteria.

Extraordinary Support In The Group Credit Profile

104. Table 3 gives examples of how we determine uplift for group support when the group credit profile (GCP) includes extraordinary support. In the example, the group stand-alone credit profile (group SACP) is 'bbb+', and we determine there is a high likelihood of potential extraordinary government support to the group from an 'A+' rated sovereign (both local and foreign currency). Under our bank criteria, we determine the potential

GCP is 'a', which includes two notches of uplift for potential extraordinary government support. The GCP is 'a' as the relevant sovereign rating of 'a+' does not constrain the GCP below the potential GCP.

Table 3

Determining Uplift For Group Support--GCP Includes Extraordinary Support

	Financial Institutions Group	Bank Entity A	Bank Entity B	Insurance Entity C	Asset Management Entity D
Group Analysis					
Group SACP	'bbb+'				
Extraordinary support	+2 notches				
Potential GCP	'a'				
Relevant sovereign rating	'a+'				
*					

Passes sovereign stress test	N.A.			
Impact of sovereign constraint	0			
GCP	'a'			
Entity Analysis				
SACP	N.A.	'bbb'	'bbb-'	'a-'
Group status	Core	Strategically important	Strategically important	Strategically important
Relevant reference point for group support uplift	GCP	GCP	Group SACP	Group SACP
Uplift for group support	N.A.	+2 notches	+1 notch	0
Potential ICR	'a'	'a-'	'bbb'	'a-'

Relevant sovereign rating *	'a+'	'a+'	'a+'	'a+'
Passes sovereign stress test	N.A.	N.A.	N.A.	N.A.
Impact of sovereign constraint	0	0	0	0
Issuer credit rating	'A'	'A-'	'BBB'	'A-'

N.A.--Not applicable. *The relevant sovereign rating is in lowercase to indicate that it is being used as a component of the determination of GCPs and ICRs and is determined in accordance with our "[Ratings Above The Sovereign](#)" criteria.

105. The financial institution (FI) group in the example has four group members comprising a bank with core group status and three subsidiaries assessed as strategically important. In the case of bank A and bank B the reference point for determining uplift for group support is the GCP of 'a' because we expect extraordinary government support in the GCP would extend to the bank entities. As a core group member, the issuer credit rating (ICR) on bank A is 'A', equal to the GCP. The ICR on Bank B, a

strategically important group member, is 'A-' because we cap the uplift for group support at one notch below the GCP. For the insurance and asset management entities, the relevant reference point for determining potential uplift for group support is the group SACP of 'bbb+' because we expect extraordinary government support in the GCP is not likely to extend to these entities. The ICR of strategically important insurance subsidiary C is 'BBB' because we cap the uplift for group support at one notch below the group SACP. Given the SACP of asset management subsidiary D is higher than the group SACP, the ICR is 'A-' since we do not constrain the ICR at the level of the group SACP. Had the SACP of subsidiary D been above the GCP, we would need to determine that it is an insulated entity for subsidiary D's ICR to exceed the GCP.

106. The approach laid out in the example applies if the expected extraordinary support in the GCP was from additional loss-absorbing capacity (ALAC) rather than from government support. If we determine that ALAC support in the GCP extends to the banking entities, the relevant reference point for determining any uplift for group support is the GCP. If we determine the ALAC support in the GCP is unlikely to extend to the insurance and asset management entities, the relevant reference point for determining any uplift for group support is the group SACP.

Impact Of Sovereign Constraint On GCP

107. Consider an example where the potential GCP is 'a-' and the relevant sovereign rating is 'bbb'. The GCP would be 'bbb' (assuming the group does not pass the sovereign stress test) because the GCP is the lower of the potential GCP ('a-') or the relevant sovereign rating ('bbb'). We determine the relevant sovereign rating by applying "Ratings Above the Sovereign" criteria and consider, at a group level, the relevant foreign currency sovereign rating, the sovereign stress test (if relevant), the maximum rating

differential above the relevant sovereign rating, and any transfer and convertibility constraints that are relevant for the group's local currency ratings (for example, cross-default clauses).

Determining The Potential ICR

108. The potential ICR includes any adjustment defined in sector criteria to determine the ICR. In our analysis of insulated entities, the SACP plus the potential for government support or ALAC includes any adjustment defined in sector criteria to determine the ICR.

Impact Of Sovereign Constraint On ICR

109. A financial institution group might provide a bank group member with hybrid capital instruments that can absorb losses of the entity at or near nonviability in a way that reduces the risk of the entity defaulting, according to our definitions, on its senior unsecured obligations (we generally refer to such instruments as group internal loss absorbing capacity). In applying our Group Rating Methodology (GRM), we consider such instruments to be ALAC support for the entity instead of extraordinary group support, if the entity and the instruments otherwise meet the conditions detailed in our ALAC criteria. We generally consider such ALAC instruments in determining whether the entity passes the sovereign stress test, if we assume that the entity's host regulator would enforce loss absorption by these instruments in a sovereign default scenario.

Identifying The Group And Its Members

110. To determine the identity of the group parent for purposes of conducting GRM analysis, we assess both the existence of control along with our judgment as to the relevance of the entity to the group's overall credit quality.

111. As a result, the group parent can be, but is not necessarily, the ultimate holding entity in the group structure. Any number of holding companies above the group parent may have been established for a variety of purposes (for example, tax considerations, regulatory requirements, or prefabricated platforms for future equity partners). If they do not hold material liabilities or operating assets (directly or indirectly), we may consider them inconsequential to the group's overall creditworthiness. As such, we may exclude these holding companies from our group analysis.

112. There are several types of owners that may control an entity we are rating but that we may not recognize as group parents because of our judgment as to their irrelevance to the group's overall creditworthiness. For example, we generally do not consider natural persons who directly hold controlling shares in an entity to be group parents. However, natural persons or families may control their businesses through one or more holding companies. Such holding structures may include several successive layers of holding corporations, the relevance of which to the group's overall creditworthiness we will assess as described above.

113. There may be other structural holding variations where a person or family holds controlling shares through a holding vehicle that may itself hold other minority or controlling shares in other companies with meaningful business operations. Such family-owned holding companies

would not qualify as "family firms" because we expect "family firms" to be devoid of (directly or indirectly held) material assets or liabilities--with the exception of the controlling shares in the rated company. Alternatively, such family-owned holding vehicles may not have other material direct or indirect business activities, but may carry a meaningful level of debt or other liabilities. Where structural holding variations exist and we view them as material or meaningful, as described above, we may consider such holding companies to be relevant to the group's overall creditworthiness and, as a result, they could qualify as group parents because of their potential relevance to the credit risk of the entity.

114. Our consideration of nonprofit organizations (including nongovernmental organizations [NGOs]), cooperative organizations, certain funds (for example, those that do not have asset management fees as a key component of their business model), and investment holding companies as potential group parents depends on our view of both their control and relevance to the group's overall credit quality. When we expect such parents to play an active role in the group, including during times of credit stress, we may consider them a group parent. For example, the determination of whether to define nonprofit organizations (including NGOs) and cooperative organizations as the group parent largely depends on their role, which includes charter mandates, track record, and relevant local regulations.

115. We may consider a mutual or cooperative group in the regulated financial services sector as a group even in the absence of a group parent or equity shareholdings between entities. For example, there may be legal, contractual, regulatory, or governance considerations that lead us to conclude that control is present and the entities collectively form the economic equivalent of a group. An example of such a group is a cooperative where all the entities in the group enter into a joint and several guarantee, the regulator and tax authorities view the entities as a single

group, and there is a central body that exercises control such that we conclude that the entities form a group for purposes of defining the group and group members.

Identifying The Group And Its Members--BNDES

116. We consider an entity a group member and include it in the GCP where it is part of an "economic group" owing to "cross-default" clauses on borrowings from Brazil's Banco Nacional de Desenvolvimento Economico e Social (BNDES).

Identifying The Group And Its Members--Subgroups

117. We may determine there are two or more entities within a group that have common characteristics, or features, that are sufficiently unique or distinct from the larger group that warrants an evaluation of this group of entities as a separate group (also referred to as a subgroup).

118. The inclusion of entities within a subgroup is notional and can be separate from how a company operates or reports, and may change over time. Notionally grouping entities through the determination of a subgroup could, for example, be based on entities' location in a particular country.

119. Classification and recognition of group support for a subgroup will reflect our evaluation of the likelihood of the subgroup benefiting from extraordinary group support, similar to our evaluation of group entities. For example, we may capture a number of legal entities in a particular country that, while small relative to the larger group, are expected to receive support. Collectively, the entities may provide diversification and growth prospects within a larger group supporting a subgroup assessment.

120. A complex group can have more than one GCP where we determine a subgroup analysis is analytically relevant. For example, a subgroup analysis may be analytically relevant where there are material liabilities at the intermediate holding company of a subgroup. For an entity that is part of a subgroup, we may also consider (i) the extent of insulation of the entity from the subgroup, and (ii) whether group support would flow directly to the entity from the wider group or through the subgroup.

The Group SACP And GCP--Extraordinary Support

121. Potential sources of extraordinary external support to a group include ALAC support or support coming from a government. To determine the GCP of a subgroup, we also consider support from the wider group as a form of extraordinary external support. Similarly, the potential sources of extraordinary negative intervention can also emanate from a government or from a wider group (in the case of subgroups).

The Group SACP And GCP--Cross-Sector Groups

122. We could derive the group SACP using more than one sector rating methodology if we determine that no single sector rating methodology adequately captures our view of overall creditworthiness. We may combine the SACPs derived from various sector rating methodologies to determine a preliminary group SACP. We could modify this preliminary group SACP to reflect our holistic view of credit quality. This would include taking into consideration factors such as diversification, other group debt, and other positive or negative credit factors that may not be reflected in the underlying SACPs.

123. For instance, suppose there is a group parent that owns one corporate entity and one insurance entity where we believe no single sector rating methodology will result in a group SACP that reflects our view of overall creditworthiness. If, in this case, the individual SACPs are 'bb' and 'a', respectively, and we consider both to have equal influence on the overall creditworthiness of the group, we could average the SACPs resulting in a group SACP of 'bbb'. We could then adjust this according to our analytic judgment to derive the group SACP. For example, we may view diversification benefits as sufficient to raise the group SACP to 'bbb+'.

124. Alternatively, if we determine that the two entities above do not equally influence the overall creditworthiness of the group, but their influence comprises 75% and 25%, respectively, this would suggest a group SACP of one to two notches (representing the weighted average of the six-notch differential) above the 'bb' SACP. This would indicate a group SACP of 'bb+' or 'bbb-'. We may further adjust our result on the basis of analytic judgment to determine the group SACP.

Government-Related Entities

125. There can be specific circumstances where we may choose to apply our Government Related Entities (GRE) methodology, rather than a combination of GRE and GRM, when analyzing an entity classified as a GRE (see the "Rating GRE Subsidiaries" section in our GRE criteria.) For instance, this may occur when a GRE is ultimately owned by the government through a holding company or asset management company, and we believe that the GRE is controlled by the government. In such circumstances, we may not view the holding company or asset management company as a group parent because we don't view it as relevant to the analysis.

Assigning The Issuer Credit Rating

126. Consider the following example that illustrates the potential ICR outcomes where we determine the SACP of a group member is 'bb' and the relevant reference point for determining uplift for group support is the 'aa-' GCP.

Table 4

Potential ICRs

Group Status	--Potential ICR--	
Core	GCP	'aa-'
Highly strategic	GCP -1 or GCP -2	'a+' or 'a'
Strategically important	SACP +3 or SACP +4	'bbb' or 'bbb+'
Moderately strategic	SACP +1	'bb+'
Nonstrategic	SACP	'bb'

127. In this example, the one-notch adjustment to determine the potential ICR is applicable since we have determined an SACP and the gap between the potential ICRs based on group status assessments of highly strategic ('a+') and strategically important ('bbb') is at least three notches (in this case there is a four-notch gap).

128. We may apply the one-notch adjustment to better capture our holistic view of potential extraordinary group support. If we assess the group member as highly strategic, we may determine the potential ICR is 'a+' or apply a negative one-notch adjustment such that the potential ICR is 'a'. If we assess the group member as strategically important, we may determine the potential ICR is 'bbb' or apply a positive one-notch adjustment such that the potential ICR is 'bbb+'.

Group Status Of Individual Members--Potential Sale Of An Entity

129. We may include uplift for group support, even if there is the potential for the sale of the entity, if we have sufficient information to believe the entity would be sold to a group that would be supportive of the entity's current creditworthiness. For example, if a leasing company were for sale and it was responsible for financing a significant portion of transportation assets in a given country, we could maintain the existing group status if we believe that the creditworthiness of the entity would be no lower following a sale. This underscores that we consider the impact of the potential sale on the entity's creditworthiness to the extent possible.

Group Status Of Individual Members--Determining An SACP

130. Determining an SACP is necessary for group members that have strategically important, moderately strategic, or nonstrategic group status. Determining an SACP is not typically necessary for core or highly strategic group members. However, assessing an SACP for a core or highly strategic group member can be required or analytically relevant in situations such as:

- In the event that group status diminishes;
- To determine the group SACP of a diverse group;
- When the group member is insulated;
- When the SACP (or the SACP + ALAC uplift) is above the group SACP and the group SACP is the relevant reference point for group support uplift;
- When rating hybrid instruments that are issued by the group member and we determine group support in the ICR does not benefit the hybrid instrument;
- When uplift for group support is limited by sovereign-related risk but the entity is likely to pass the sovereign stress test; or
- In the case of highly strategic group members that are eligible for a one-notch adjustment to the potential ICR (as described in table 1 and paragraph 42 of the criteria) to better reflect our holistic view of potential extraordinary group support.

Group Status Of Individual Members--Core Entities

131. A core group entity generally either constitutes a significant proportion of the consolidated group or is integrated with the group. An integrated group entity refers to an entity that depends on the rest of the group for its administrative and operational activities and its infrastructure. These operational factors render it highly likely to benefit from group support if required. Examples can include booking or cost centers, captive insurers, captive financing operations, and group entities that exist solely to issue debt or carry on treasury operations on behalf of a group.

132. While a core group entity has typically been operating for about five years or more, there may be cases where a core group member has a shorter operating history because, for example, it has been established to

serve an important customer segment or to comply with regulatory or tax requirements.

Financing Subsidiaries--Financial Institution Group

133. When a financing subsidiary of a financial institution group is wholly owned but its sole activity is to raise debt on behalf of the holding company, it is typically assigned a rating as if it were a holding company. This may be the case, for example, for financing subsidiaries of banking groups where we determine the support flowing to the operating company and reflected in the GCP does not support to the same extent obligations associated with the financing subsidiary.

Financing Subsidiaries--Insurance Group

134. We generally do not assess the group status of a financing subsidiary of an insurance group as core. However, we may assign core group status to a financing subsidiary of an insurance group where all of the following apply:

- It plays an integral role in issuing hybrid instruments that qualify as regulatory capital for the insurer;
- Its sole activity is to raise such capital for the insurer. For example, there is a clear written irrevocable commitment to stand behind the hybrid instruments of the financing subsidiary, thus reducing the importance of the legal separation of the entities;
- It is wholly-owned by the operating insurance company;
- It shares a related corporate name; and
- Issuance by the entity is motivated by regulations in the relevant jurisdiction.

Investment Holding Companies

135. We may consider some investment holding companies (IHCs) (as defined in our article "[Methodology: Investment Holding Companies](#)") as group parents while we may determine that others are not group parents. This will depend on both the existence of control as well as our judgment as to the relevance of the entity to the group's overall credit quality. For example, IHCs that own a noncontrolling equity stake cannot be group parents because they do not have control, as defined in GRM criteria.

136. Where we determine that an IHC is a group parent, the group status of its investee companies cannot be any higher than moderately strategic, given the nature of the strategic and financing relationship between IHCs and their investee companies (see "Other Rating Considerations" section in "[Methodology: Investment Holding Companies](#)").

Project Developers

137. Where we determine that a project development company is a group parent (as defined in "[Methodology For Rating Project Developers](#)"), the group status of its group members is typically classified as nonstrategic or moderately strategic to the developer.

Insulated Entities--Minority Shareholders

138. The presence of significant minority shareholders can place meaningful limitations on the group's control of an entity. These limitations support the insulation of the entity from the rest of the group and contribute to a potential ICR on the entity that is two notches above the GCP. Many jurisdictions have specific regulations in place to protect the

rights of minority shareholders vis-à-vis the ruling majority. Examples of effective rights that limit the control of a majority shareholder include the requirement to attain a majority vote from the minority shareholders, in order to undertake any material changes in the entity's financial or business policies, or to file for voluntary bankruptcy. Even without targeted favorable legislative treatment, an organized minority block with adequate board representation often has sufficient power to prevent dividend payments and to influence decision-making effectively. Such minority shareholders would be unaffiliated with the majority shareholder and would have an active interest and role in corporate governance and the rights to ensure that the entity is adequately capitalized to conduct its business operations with a long-term view.

Insulated Entities--Structural Safeguards

139. To determine whether we expect a regulator to act to protect the credit quality of an entity, we may look to publicly stated policies.

Insulated Entities--Banks

140. We do not apply our typical insulation analysis, as per paragraphs 65-67 of the criteria, if paragraph 70 of the criteria applies to determine insulation. In addition, we consider the impact of the insulation on the group SACP (see paragraphs 27 and 28 of the criteria).

Holding Companies of Corporate Groups--Notching

141. As stated in paragraph 71 of the criteria, the ICR on holding companies of corporate groups and nonregulated nonbank financial institutions is typically the same as the GCP. However, we may rate a

holding company below the GCP if we believe that tight regulatory oversight of its operating subsidiaries increases the credit risk of the holding company, vis-à-vis that of their regulated operating subsidiaries. This may happen, for example, in the regulated utilities, regulated transportation infrastructure, and regulated nonbank financial institutions sectors. In these sectors, there can be significant regulatory constraints on the upstreaming of funds sources to the holding company, at a time when such holding company may be heavily reliant on dividends and other distributions from its regulated operating subsidiaries to meet its obligations. In such instances, to differentiate the credit risk of the holding level from that of the regulated operating level, the ICR on the holding company may be:

- One notch lower than the GCP if the GCP is 'bbb-' or higher; or
- Up to two notches lower than the GCP if the GCP is 'bb+' or lower.

Holding Companies--Insurance Standard Notching

142. To determine the ICRs on holding companies of insurance groups, we consider potential regulatory restrictions to payments. Where we think the regulation of insurance companies results in a higher likelihood of constraints on the movement of cash flows to the holding company, we consider potential regulatory restrictions to payments as high--for example, in the U.S. and Israel. For other jurisdictions, we typically consider regulatory restrictions to payments as low.

Holding Companies--Narrower Notching

143. In determining whether to apply narrower than standard notching for a holding company, we typically assume holding companies of financial institution groups will not retain significant unencumbered cash as their

primary role is to lend or invest cash to generate earnings. For holding companies of insurance groups, we typically expect more than one of the characteristics in paragraph 75 of the criteria to be sustainably present in order to narrow the notching. In determining whether to eliminate the notching for insurance groups and prudentially regulated financial institution groups, we typically expect the holding company to generate sufficient cash flows from its own business activities or from unregulated operating subsidiaries and we consider the regulatory environment. For example, in the U.S., elimination would be unlikely.

144. For some financial institutions, for example those that are rated speculative-grade and whose anchors (see the relevant respective frameworks) are low and already reflect a weak regulatory environment, we may narrow the gap (number of rating notches) between the holding company ICR and the GCP from the standard notching because the assumption of regulatory restrictions to payments typically reflected in the standard gap does not apply.

Holding Companies Of Prudentially Regulated Financial Services Groups--Liquidity

145. For holding companies of financial services groups, we typically include committed undrawn capacity of liquidity facilities available for general corporate purposes when considering the available liquidity resources. We do not include uncommitted facilities, facilities that require encumbrance, or revolvers.

Holding Companies Of Prudentially Regulated Financial Services Groups--Financial Institutions

146. For financial institutions, high double leverage can create elevated liquidity risks for the holding company that may lead us to apply wider than standard notching. In the absence of offsetting liquidity at the holding company, we may consider double leverage as high if, for example, it exceeds 120%. Alternatively, if we view net income as particularly germane to our assessment of the group, we may consider if the nominal amount of double leverage exceeds two years' net income of the group, which would also indicate high double leverage.

Holding Companies Of Prudentially Regulated Financial Services Groups--Intermediate Holding Companies

147. Treatment of intermediate holding companies depends on the role and nature of constraints on the transfer of cash flow across the group. Consider an insurance subgroup headed by an intermediate holding company that is part of a prudentially regulated financial institution group. The GCP is 'a-' and the ICR of the holding company is 'BBB+'. We determine the insurance subgroup is core to the group and its group members are core to the subgroup. The ICRs on the insurance operating entities are 'A-'. The ICR of the intermediate holding company is 'BBB+', because we apply the same notching that we apply to the holding company of the group. Furthermore, we determine there are no additional considerations to widen or narrow the notching.

148. Consider another example, an insurance subgroup that is part of a corporate group. We determine the group status of the insurance subgroup is nonstrategic, and it is eligible for three notches of insulation from the group. The GCP is 'bbb', the ICR on the holding company is 'BBB', and the

insurance subgroup GCP is 'a'. The ICRs on the insurance operating entities are 'A' because we have determined that they are core to the subgroup. Although the ICR of the holding company is at the same level as the GCP, we conclude that wider notching applies to the intermediate holding company to reflect risks relating to cash flows from its regulated operating entities on which it is reliant. We set the ICR of the insurance intermediate holding company at 'BBB' because we conclude that potential regulatory restrictions to payment are high and determine in this case to widen the holding company notching to three notches, in line with the standard notching for holding companies of insurance groups.

Rating Group Entities Above The Sovereign

149. We may assign ratings to group members above the relevant sovereign rating when specific factors lessen the expected influence of sovereign risk. We apply GRM to determine whether uplift for group support can result in an ICR on a group member being higher than the relevant sovereign rating.

150. We apply the transfer and convertibility (T&C) test in ratings above the sovereign criteria to determine whether to assign a foreign currency ICR on a group member above the T&C assessment. As a result, uplift for group support does not result in a group member's foreign currency ICR being higher than the T&C for the relevant sovereign.

151. When considering whether uplift for group support can result in the rating of a financial institutions core group member exceeding the sovereign in which the group member operates, we consider the willingness and ability of the parent to support the group member such that it will pay its financial obligations on a full and timely basis. We also consider the likelihood of the group member remaining core in case of

major stress in the country of domicile of the group member. When considering the ability of the group to support the group member during the stress associated with a sovereign default, we consider the size of the group member relative to the group, the rating differential between the GCP and the relevant sovereign foreign currency rating for the group member, and the extent of financial resources available at the group. We typically rate a core group member no more than one notch above the relevant sovereign rating. However, we may rate a core group member two notches above the relevant sovereign rating on the basis of group support when the group parent and core group member are based in countries that operate under a single regulatory and supervisory framework, are expected to remain part of a single monetary union, and where we consider that the risks of introduction of a deposit freeze or other controls will not affect the parent's ability to support full and timely payment of financial obligations by the group member.

152. Table 5 lists five examples of how sovereign constraints can affect the ICR on group members.

Table 5

The Effects Of Sovereign Constraints On Group Member ICRs

	Entity A	Entity B	Entity C	Entity D	Entity E
Sector	Bank	Corporate	Insurance	Corporate	Bank
Group SACP	'a'	'a'	'a'	'a'	'a-'
GCP	'a'	'a'	'a'	'a'	'a'

SACP	'bbb'	'bbb+'	'bbb'	'bbb'	'bbb'
Group status	Strategically important	Strategically important	Core	Highly strategic	Strategically important
Uplift for group support	+2 notches	+1 notch	+3 notches	+2 notches	+2 notches
Potential ICR	'a-'	'a-'	'a'	'a-'	'a-'
Relevant sovereign rating*	'bbb'	'bbb'	'bbb'	'bbb'	'bbb'
Passes sovereign stress test	N.A.	Yes	N.A.	N.A.	Yes
Impact of sovereign constraint	-2 notches	-1 notch	0	-2 notches	-1 notch
ICR	'BBB'	'BBB+'	'A'	'BBB'	'BBB+'

N.A.--Not applicable. *The relevant sovereign rating is in lowercase to indicate that it is being used as a component of the determination of GCPs and ICRs and is determined in accordance with "Ratings Above the Sovereign" criteria.

153. Entity A. The potential ICR is 'a-' (SACP + 3 notches, but capped at one notch below the GCP), and the ICR is 'BBB' as the group member's ICR is the lower of the potential ICR ('a-') and the relevant sovereign rating, which in this case is the foreign currency sovereign rating ('bbb'). Uplift for group support does not result in the ICR on the group member being higher than the relevant sovereign rating for a strategically important group member.

154. Entity B. In this case, the entity passes the sovereign stress test and the maximum rating differential above the sovereign foreign currency rating is limited to two notches (in this example, the corporate operates in a sector where we view sensitivity to country risk as high). The potential ICR is 'a-' and the ICR is 'BBB+' as the potential ICR on the group member (excluding uplift for group support) is 'bbb+', which is above the relevant foreign currency sovereign rating for the group member, and the group member passes the appropriate sovereign stress test. Ratings uplift for group support does not result in the ICR assigned to the group member being higher than the relevant sovereign rating for a strategically important group member.

155. Entity C. The potential ICR is 'a' (equal to the GCP). As a core group member, uplift for group support can result in the ICR on a group member being higher than the relevant sovereign rating. We determine the group is willing and able to support the group member during the stress associated with a sovereign default. The ICR is 'A' as the ICR on the group member is the lower of the potential ICR ('a') or three notches above the relevant sovereign foreign currency rating (i.e. 'a' which is 3 notches above 'bbb').

156. Entity D. The potential ICR is 'a-' (i.e., GCP - 1 notch). As a highly strategic group member, uplift for group support can result in the ICR on the group member being higher than the relevant sovereign rating. However, we determine that the group is willing but unable to support the group member during the stress associated with a sovereign default. The ICR is 'BBB' as the ICR on the group member is the lower of the potential ICR ('a-') or the relevant sovereign foreign currency rating ('bbb').

157. Entity E. The GCP includes uplift for ALAC support and we expect the extraordinary support in the GCP to extend indirectly through the group to the entity. We also determine the entity is eligible for one notch of extraordinary ALAC support based on group internal loss-absorbing capacity provided from the group parent. The two notches of uplift for group support represent the greatest source of extraordinary support (before considering any relevant sovereign constraints), therefore the potential ICR on the bank is 'a-'. As a strategically important entity, uplift for group support does not result in the ICR on the group member being higher than the relevant sovereign rating ('bbb'). However, we determine that including the ALAC instruments would enable the entity to pass the sovereign stress test. The ICR is 'BBB+' as the group member's potential ICR (but excluding uplift for group support) is 'bbb+' (SACP of 'bbb' + one notch of uplift for ALAC support), which is itself higher than the relevant foreign currency sovereign rating for the group member, and the group member passes the appropriate sovereign stress test. In this case, uplift for ALAC support is the highest source of extraordinary support, after considering any relevant sovereign constraints.

REVISIONS AND UPDATES

This article was originally published on July 1, 2019. These criteria became effective on July 1, 2019.

Changes introduced after original publication:

- On Aug. 27, 2020, we republished this criteria article to make nonmaterial changes. We deleted a sentence from the first paragraph citing the publication of a guidance article because the reference to the related guidance was included in "Key Publication Information." We also deleted a bullet point referring to the effective date from the section "Key Publication Information" because the criteria are now effective in all markets. In addition, we deleted the "Impact On Outstanding Ratings" section, which was related to the initial publication of the criteria and no longer relevant. We also deleted outdated references from the "Related Publications" section, updated article references in paragraphs 57 and 59, and added a "Related Research" section.
- On Dec. 14, 2021, we republished this criteria article to make nonmaterial changes. We updated related criteria and related research references.
- On Nov. 1, 2022, we republished this criteria article to make nonmaterial changes to clarify the criteria intent in paragraph 62 with respect to how we determine the GCP for interlocking groups.
- On Oct. 31, 2023, we republished this criteria article to make nonmaterial changes. As announced in "[Evolution Of The Methodologies Framework: Introducing Sector And Industry Variables Reports](#)," Oct. 1, 2021, S&P Global Ratings is phasing out guidance documents. As part of that process, we have archived "[Guidance: Group Rating Methodology](#)," July 1, 2019, and included its content--without any substantive changes--in a new appendix of this article, and we updated the paragraph numbers. We also updated the "Related Publications" section and the article references.
- On Dec. 17, 2024, we republished this criteria article to make nonmaterial changes to clarify the criteria intent in paragraph 64 with respect to insulation of group members that are the only cash flow resource for the repayment of debt issued by other group members above. We also updated the Related Criteria section.

RELATED PUBLICATIONS

Superseded Criteria

- [Group Rating Methodology](#), Nov. 19, 2013.

Related Criteria

- [Corporate Methodology](#), Jan. 7, 2024
- [Financial Institutions Rating Methodology](#), Dec. 9, 2021
- [Insurers Rating Methodology](#), July 1, 2019
- [Guarantee Criteria](#), Oct. 21, 2016
- [The Impact Of Captive Finance Operations On Nonfinancial Corporate Issuers](#), Dec. 14, 2015
- [Methodology: Investment Holding Companies](#), Dec. 1, 2015
- [Rating Government-Related Entities: Methodology And Assumptions](#), March 25, 2015
- [Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions](#), Nov. 19, 2013
- [Criteria For Assigning 'CCC+', 'CCC', 'CCC-', And 'CC' Ratings](#), Oct. 1, 2012
- [Principles Of Credit Ratings](#), Feb. 16, 2011
- [Stand-Alone Credit Profiles: One Component Of A Rating](#), Oct. 1, 2010

Related Research

- [S&P Global Ratings Definitions](#), updated from time to time
- [Evolution Of The Methodologies Framework: Introducing Sector And Industry Variables Report](#)
, Oct. 1, 2021

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State Farm Mutual Automobile Insurance 'AA' Ratings Affirmed Following Revised Capital Model Criteria; Outlook Stable

- On Nov. 15, 2023, we published our revised criteria for analyzing insurers' risk-based capital (see "[Insurer Risk-Based Capital Adequacy--Methodology And Assumptions](#)").
- Implementing the revised capital model criteria has not affected our view of the financial strength of State Farm Mutual Automobile Insurance Co.
- We affirmed our 'AA' insurer financial strength and issuer credit ratings on State Farm and its core subsidiaries.
- The stable outlook indicates our expectation that the company will remain the largest U.S. personal line insurer and maintain capital at the 99.99% level.

PRINCETON (S&P Global Ratings) June 28, 2024--S&P Global Ratings said today it affirmed the 'AA' insurer financial strength and issuer credit ratings on State Farm Mutual Automobile Insurance Co. and its core

subsidiaries. The outlook remains stable.

Impact Of Revised Capital Model Criteria

- Applying the revised capital model criteria did not materially affect our view of State Farm's creditworthiness.
- Under the revised criteria, the non-deduction of the non-life deferred acquisition cost and a higher non-life reserve discount benefit improved State Farm's total adjusted capital.
- The recalibration of our capital charges to higher confidence levels leads to a higher capital requirement. However, this was offset by the higher diversification benefit because we now capture diversification more explicitly, leading to a reduction in the required capital charges.
- We expect State Farm's consolidated capital adequacy will remain above the 99.99% confidence level during 2024 and 2025, supported by improving property/casualty (P/C) operating performance.

The stable outlook reflects our view that State Farm will maintain its position as the largest U.S. personal-lines insurance carrier, complimented by its diversified business that includes life, annuity, health, and investment planning services. Its considerable capital redundancy supports the ratings, and we anticipate its diverse revenue sources will help it maintain excellent capital adequacy commensurate with the ratings.

We could lower our ratings if State Farm's capital position deteriorates below the 99.99% level and we think the group will not be able to improve its financial condition, or if the group's competitive position weakens.

We are unlikely to raise our ratings in the next two years because State Farm's operating performance has historically underperformed its peers, and we do not expect a material change in its pricing strategy, which is

generally priced above a 100% combined ratio in its auto insurance line.

State Farm's formidable market presence, combined with its multiline product offerings, provides the group with a considerable competitive advantage. It is the largest writer of private-passenger auto and homeowners' multiperil insurance in the U.S. and a major provider of commercial multiperil, along with individual life and health insurance. The company has wide brand-name recognition, a loyal customer base, and a cost-efficient exclusive agent network.

We expect the overall combined ratio, which has been improving recently, to reach 105%-107% in 2024 and 101%-103% in 2025 (under 100% indicates an underwriting profit), with the natural catastrophe loss of around 8%.

In 2023, the combined ratio improved slightly to 116.6% from 117.2% in 2022 owing to management's efforts on profitable underwriting and increases in pricing for the personal lines. However, the higher loss severity, along with the total catastrophe loss of \$9.5 billion in 2023, compared with \$5.1 billion in 2022, affected operating performance

The company's underwriting performance continued to improve in first-quarter 2024, with a combined ratio of 105.6%, compared with 115.4% in the same period of 2023. This mainly was a result of continued rate increases and lower catastrophe losses in the first three months of 2024.

We believe the company's plan to not write some P/C policies, including new homeowners' policies in California, will have a minimal effect on underwriting performance in the short term. The exposure to this business in California will remain at the current level from the renewal of existing policies. Any performance improvement on this business, therefore, would result from rate increases and possibly policy modifications.

The life operations comprise life, health, and annuity products and are supported by its vast distribution network of exclusive agents. State Farm maintains one of the highest cross-selling rates between its P/C and life customers. The health business consists of disability insurance, supplemental hospital-related coverage, Medicare supplement, and long-term care (closed book).

We view State Farm's capital and earnings as excellent and expect they will remain so. In particular, the company has a significant capital cushion at the 99.99% level based on our capital adequacy analysis. Capital redundancy is key to counterbalance vulnerabilities to material capital impairment amid natural catastrophe losses or capital markets dislocation.

The company's capital position benefits from sound risk management processes. These encompass stress testing to assess capital strength designed to absorb two back-to-back years of extraordinary events.

We regard State Farm's liquidity as exceptional. The company generally holds enough liquid assets in the form of cash and other liquid investments to meet ongoing obligations.

Related Criteria

- [Criteria | Insurance | General: Insurer Risk-Based Capital Adequacy-- Methodology And Assumptions](#), Nov. 15, 2023
- [General Criteria: Environmental, Social, And Governance Principles In Credit Ratings](#), Oct. 10, 2021
- [General Criteria: Group Rating Methodology](#), July 1, 2019
- [Criteria | Insurance | General: Insurers Rating Methodology](#), July 1, 2019
- [General Criteria: Principles Of Credit Ratings](#), Feb. 16, 2011

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