

Requirements of Raiffeisenbank to financial standing of insurance companies

(SCORING)

Name and explanation of ratio	Computation algorithm, %	Value, %	Weight of ratio /group, %
1.1 Asset quality and liquidity ratios			25.0
The minimal liquidity level ratio reflects the coverage of the most urgent insurance liabilities with cash. Net insurance reserves refer to insurance reserves, excluding ceded reinsurance.	Cash / net loss reserves	20.0 -170.9	20.0
	Form 1: line 260 / line 530 deducting line 163		
The sufficient liquidity ratio reflects the compliance of the total liquid assets of the insurer to the net insurance and other liabilities.	Liquid assets / net insurance reserves and other liabilities	52.3 - 113.2	50.0
	Form 1: lines 141,142,260 / lines 690, 590 deducting line 160		
The leverage ratio. The share of borrowed funds in relation to equity.	Liabilities / equity	16.0-47.5	15.0
	Form 1: line 690 / line 490		
The level of coverage net insurance reserves by liquid assets, including the investment portfolio. The investment portfolio includes investments in stocks, bonds and other securities of third-party issuers, except subsidiaries and affiliates.	(Liquid assets + investment portfolio)/ net insurance reserves	45.0 -165.5	15.0
	Form 1: lines 134,135, 136, 141,142,260 / lines 690, 590 deducting line 160		
1.2 Underwriting ratios			15.0
The gross premiums growth ratio. Companies that demonstrate above-average growth rates (or too high rates in crisis - more than 30%) could have reached such results, among other, due to dumping. The growth of premiums is also an important indicator of the customer base size, as a negative growth rate may testify of a declining customer base. This ratio is affected by both the good faith in performing obligations to clients, as well as changes in the total revenue and rates adequacy. A negative premiums trend indicates loss of market positions.	(gross premiums at the end of the last reporting year / gross premiums at the end of the previous reporting year) -1	-5.0 - 50.0	30.0
	(Form 2: lines 011, 081 at the end of the reporting period / lines 011,081 at the end of the previous reporting period) -1		
The retention ratio reflects the degree of dependence on reinsurance/retrocession. A company which cedes to session/retrocession more than the business requires, probably makes ineffective underwriting assessment of its portfolio and may face a shortage of net premium to cover core business expenditures, or is involved in a reinsurance schemes. If the ratio is above 88% this may indicate a lack of reinsurance protection.	Net premiums written / Gross premiums written	75.1-96.6	20.0
	Form 2: lines 010,080 / lines 011,081		
The reinsurance efficiency. This ratio shows the efficiency of the reinsurance policy, besides, its value below the market average may point to the capital immobilization. (Reinsurance in offshore companies, which then do not participate in claims). The ratio above 100% indicates of the insurance portfolio reduction.		18.0-125.0	50.0
	Form 2: (line 032+ line 112)/(line 012+ line 082)		
1.3 Insurance reserve ratios			20.0
The ratio provides an approximate estimate of insurance reserves adequacy. If the value is below	Net insurance reserves / net premiums	75.0-135.0	40.0

	Form 1: line 590, deductin line 160 / form 2: lines 010,080		
Insurance claims and charges to insurance reserves are the largest expense item of the insurer. If this ratio is less than 80%, the insurer has created excess reserves that may be connected with a scheme. If the ratio is higher than 200% this may indicate an inadequately low reserves accumulation and, therefore, the insurer may face a shortage of funds for payments.	Net insurance claims and charges to insurance reserves / net insurance reserves - Form 2: line 030, 110, 120,130, 150/ form 1 line 590, excluding line 160	49.0-99.0	30.0
The return from insurance reserves invested in "working" assets. A lower return from "working" assets may indicate of low assets quality.	Form 7. The income from the placement of insurance reserves / (the insurance reserves, except real estate, share of reinsurers in insurance reserves, premium deposits, accounts receivable at the end of the year)	$\geq 5.5\%$	30.0
1.4 Capitalization ratios			15.0
The financial solvency ratio determines the relation between the premiums written (the amount at risk) to its capital or the ability to cover losses by the own capital. The higher the value, the more risk in relation to the capital of the company.	Net premiums written / equity Form 2 lines 010, 080 / Form 1 line 490	77.0-336.0	40.0
The annual capital growth rate of the company. The capital reduction points out negative development of the company and reduces its solvency.	Annual capital growth rate. (Form 1: line 490 at the end of the reporting period / line 490 at the beginning of the period) - 1	1.5-130.0	20.0
The return from assets taken to cover the equity. A low return may testify of their poor quality.	Form 14, Income from the placement of the capital / the capital	≥ 3.2	40.0
1.5 Profitability ratios			20.0
Return on assets measures performance efficiency and the ability to cover low-quality assets (overdue receivables and other assets) from the own income sources. If the return on assets is above 50%, it raises doubts regarding the "market nature" of the company. If it is below 1.5% it is likely that the company is not	Profit before tax / average annual assets Form 2: line 250 / 0.5*(Form 1: line 300 at the end of the year + line 300 at the beginning of the year)	1.5-35.0	25.0
The expense ratio. This ratio reflects the share of premiums allocated to the underwriting expenses (new contracts). If the ratio exceeds 40%, the underwriting efficiency is not high, whether value less than 8% raises doubts of the company's transparency.	Commission and underwriting expenses/net premium written Form 2: -1*(lines 050,160,200) / line 010, 080	23.0-48.2	50.0

<p>Loss ratio. Losses and claims are the most significant expense items for most non-life insurance companies. Different values of this ratio for companies may be related to differences in the following parameters: tariffs adequacy, the term structure of risks, the pricing strategy regarding combination of expense and loss ratio, and adverse losses (i.e., fatal accidents, epidemics, large-scale disasters in areas of the insurer's risk concentration). If the index is below 28%, the company's integrity is questionable, and if it is above 66%, the company is exposed to very high risk.</p>	<p>Net losses occurred and charges to reserves / net premiums Form 2: $-1 * (\text{lines } 030, 110, 120, 130, 152) / \text{lines } 010, 080$</p>	<p>45.5-70.0</p>	<p>25.0</p>
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The acceptance criteria for insurance companies in relation to the scoring values are as follows:

For car insurance when individuals and private entrepreneurs receive a car loan (Fully Comp), the final scoring of the company must be not less than 40% and the *general requirements* to an insurance company must be met. Failure to comply with at least one of the *general requirements, or the scoring lower than 40% is a reason to refuse from cooperation with the insurance company in Fully Comp car insurance.*

For insurance of pledged property of legal entities and private entrepreneurs (when corporate loan is provided) the final scoring of the company must be not less than 48% and the *general requirements* to an insurance company must be met. Failure to comply with at least one of the *general requirements, or the scoring lower than 48% is a reason to refuse from cooperation with the insurance company in pledged property insurance for legal entities and individuals, acting as private entrepreneurs.*

For mortgage insurance - complex insurance, covering risk of personal injury or diseases of policyholder, title insurance and property and/or only property insurance (the mortgaged property) of individuals, depending on the mortgage lending program selected by a borrower, the final scoring should be not less than 52%. Failure to comply with at least one of the *general requirements, or the scoring lower than 52% is a reason to refuse from cooperation with the insurance company in mortgage insurance, including complex mortgage insurance.*

If the insurance company is a subsidiary of a foreign insurance group with a long-term investment grade credit rating with one of the international rating agencies (Standard & Poor's, Fitch Ratings: BBB- and above, Moody's: Baa3 and above), then the final scoring of such subsidiary insurance companies must be not less than 35%, 40% and 45% for co-operation in Fully Comp, corporate and mortgage insurance areas respectively.