STANDARD
&POOR'S

Global Credit Portal®
RatingsDirect®

April 22, 2009

Criteria | Insurance | General:

Group Methodology

Primary Credit Analysts:
Mark Puccia, New York (1) 212-438-7233; mark_puccia@standardandpoors.com
Grace Osborne, New York (1) 212-438-7227; grace_osborne@standardandpoors.com

Secondary Credit Analyst:
Shellie Stoddard, New York (1) 212-438-7244; shellie_stoddard@standardandpoors.com

Table Of Contents

Applying The Group Methodology Criteria

Group Financial Analysis

Rating Core Or Strategically Important Subsidiaries Higher Than The Core Group Rating

Segmented Ratings: Rating Subsidiaries One Category Above The Rating On The Group

Evaluating Start-Ups Under Group Methodology

Net-Worth-Maintenance Agreements

Guarantees

Health Insurer Differences

Related Criteria And Research

Criteria | Insurance | General:

Group Methodology

(Editor's Note: This criteria article was originally published on April 22, 2009. We are republishing this article following our periodic review, completed on April 27, 2011. This article supersedes the articles titled, " What Makes An Insurance Or Reinsurance Subsidiary 'Core' Under Group Rating Methodology?" published March 31, 2005, and "Group Methodology For Financial Services Companies," published March 19, 2004, and partially supersedes "Flexible Gapping Of Ratings Reflects Regional Variations In Structural Subordination As Well As Differing Debt-Servicing Capacities," published May 25, 2005. The portions of this article related to banks have been fully superseded by the articles titled, "Banks: Rating Methodology And Assumptions," and "Group Rating Methodology And Assumptions," both published Nov. 9, 2011.)

Over the past few years, corporate managements in the financial services sector have been taking a much harder look at the strategic viability of the businesses they are in. Executives in this sector appear more apt to cut the cord with less-strategic or underperforming operations than they have been in the past. This situation indicates to Standard & Poor's Ratings Services that we must diligently review the strategic significance of subsidiaries in these groups and that subsidiaries that we might view as strategic today could be candidates for sale tomorrow.

In recent years, there have been several cases of a management selling or spinning off subsidiaries that it once had considered strategic and to which it had indicated its commitment. On an ongoing basis, Standard & Poor's will be reviewing the strategic nature of rated legal entities within financial services enterprises and the strength of their operational performance within the context of the organizations of which they are a part. To the extent that such analysis calls into question the strategic importance of these subsidiaries or identifies operational performance issues, we may reduce the degree of support embedded in the ratings.

Standard & Poor's is refining and adapting its methodology and assumptions for evaluating the group methodology of insurance companies, related to "Criteria: Principles Of Corporate And Government Ratings," which we published on June 26, 2007, on RatingsDirect at www.ratingsdirect.com and Standard & Poor's Web site at www.standardandpoors.com. We are publishing this article to help market participants better understand our approach to reviewing insurance companies.

This article is part of a broad series of measures announced last year to enhance our governance, analytics, dissemination of information, and investor education initiatives. These initiatives are aimed at augmenting our independence, strengthening the rating process, and increasing our transparency to better serve the global markets.

Applying The Group Methodology Criteria

The accelerated pace of consolidation has heightened the complexity of analyzing financial services groups. We expect this trend to continue on a global basis. To capture the risks and strengths of this changing terrain, Standard & Poor's has developed and refined its analytic methodology for rating the individual companies within financial services groups.

In many cases, Standard & Poor's expects that the group will support subsidiaries, but increasingly we have felt it necessary to question the ongoing nature of this support in the context of how the subsidiary fits into the long-term

strategy of the overall financial services enterprise. Indeed, over the past few years, a number of financial services groups have divested major subsidiary operations or have refocused and redefined subsidiaries that they had previously considered central to their commercial strategy. On the other hand, the refocusing of operations has also occasionally led to changes in which some previously peripheral subsidiaries have become much more integral.

A more dynamic management style at a number of the companies we rate requires us to adopt a more dynamic analytic process. As part of this analytic process, we intend to address two principal issues:

- What is the overall financial security of the group?
- How does each entity in the group, whether a holding company or an operating company, fit into the overall group structure, and what would be the likelihood of group management proving willing and able to support each such entity if significant capital support were required? Conversely, what is the likelihood of group management wanting to sell, putting into run-off, or, ultimately, walking away from a given group member?

When addressing these issues, Standard & Poor's believes that for many financial services groups, it is appropriate for us to evaluate operating banks, insurers, holding companies, and other subsidiaries, both on an individual basis and in the context of the aggregate financial security of the group. Standard & Poor's also believes that even if a group isolates its riskier lines of business into a so-called bad subsidiary, we shouldn't ignore such segregated risks when analyzing the group. Our methodology for analyzing financial services groups attempts to provide a consistent framework for assessing the creditworthiness of the entire organization as well as of the individual (rated) entities within it.

Standard & Poor's approach essentially comprises three stages:

- Undertake a consolidated and unconsolidated group analysis to allow us to confidentially assign notional group ratings across the entire group as though it were a single corporate entity.
- Establish confidential stand-alone ratings for each individually rated entity within the group.
- Complete the analysis by designating each rated entity within the group as core, strategically important, or nonstrategic to the ultimate parent group and adjust the final public rating accordingly to reflect the appropriate level of group support.

Group Financial Analysis

The first objective of the group analytical exercise is to establish a set of notional (nonpublic) aggregate ratings for the financial services group under review. By looking at all the operating and holding-company units that are material to the group in terms of size or risk, we establish aggregated ratings that reflect our view of the consolidated group risk profile as if it were a single corporate entity. Such aggregated core group ratings become the reference point for any public ratings that we may subsequently assign to the individual legal entities that constitute the group. Our group analysis is based on a combination of consolidated and individual company financial data, and our ratings so derived are usually indicative of the counterparty credit, senior debt and, for insurers, financial strength ratings that we deem applicable to the main operating companies of the consolidated group. We typically assess these notional core group ratings with respect to the main operating and holding company entities across the group. However, we derive the notional ratings applicable to pure holding companies within groups indirectly, usually by notching down by one to three ratings notches from the notional core group counterparty credit rating assigned to the main operating companies of the group. Any notching or gapping between the notional operating

and holding company ratings reflects our perceptions of greater default risk for a group's (unregulated) holding company liabilities than for that same group's (regulated) operating companies.

Stand-alone analyses of individual entities

In the second phase of the group analysis, we subject each rated subsidiary to a full credit assessment, including both financial and nonfinancial factors. This process initially produces stand-alone rating assessments of the individually rated legal entities within the group.

The stand-alone rating is a rating committee's confidential assessment of what a single legal entity within a group would be rated incorporating the benefits or problems of being part of the same group, including such things as access to group distribution, involvement of group management, access to group resources (excluding capital contributions), and the benefit or detriment of the group's financial flexibility. A stand-alone rating usually would not include any potential capital contribution from the group, or other forms of extraordinary financial support.

Group status: core, strategically important, or nonstrategic?

In the third stage of the analysis, we classify group members in one of three categories: core, strategically important, or nonstrategic. Many subsidiaries exhibit some characteristics of each of these categories, and not all characteristics need be present for a subsidiary to be considered core or strategically important. However, the following factors illustrate what a rating committee will closely consider when seeking to establish an entity's group status:

Core group companies

Core group companies are those whose existence and operations we consider integral to the group's current identity and future strategy and which we believe the rest of the group would support under any foreseeable circumstance. Based on our analysis of their importance to the entire organization, we would assign to companies we consider core to the group the core group ratings of either the operating or the holding companies, as appropriate.

We define core group companies as those that:

- Operate in lines of business integral to Standard & Poor's understanding of the overall group strategy. The activities they undertake or the products they sell are very closely aligned to the mainstream business of the company and are often sold to customers in the same target market. Nevertheless, the nature of the subsidiary's business should not be substantially more risky than the group's overall business.
- Share the same name or brand with the main group unless there is a strong business-development incentive to use a different name.
- Are separately incorporated — mainly for legal, regulatory, or tax purposes — but de facto operate more as a division or profit center within the overall enterprise, usually exhibiting business, customer, and regional focus that's similar to that of other principal operations of the group. Core subsidiaries will often share things like a distribution network and administration with other major operating units.
- Senior group management has made a strong commitment to — support the subsidiary in good times as well as bad. Another indication of such commitment could have been a decision to integrate the operations of a subsidiary or affiliate fully into the entire enterprise. For example, an insurance subsidiary might be 90%–100% reinsured internally by the group.
- Constitute a significant proportion of the parent group's consolidated position, meaning at least a 5% to 10% share of consolidated group capital (or be capable of reaching this level within three to five years). We should view the subsidiary as likely also to contribute on a sustainable basis a significant proportion of consolidated group turnover and earnings.

- Are appropriately capitalized commensurate with the rating on the group. We expect higher-rated entities to be better capitalized, in line with the rating on the group.
- Are reasonably successful at what they do or have, in our view, realistic medium-term prospects of becoming successful relative to both group management's specific expectations of the subsidiary company and the earnings norms achieved elsewhere within the group. We would view as non-core those subsidiaries that demonstrate ongoing performance problems or that we expect to underperform vs. group management's expectations and group earnings norms over the medium to long-term.
- Could not conceivably be sold, for instance if administrative, operational, and infrastructure dependence on the rest of the group make it impossible to sever the entity from the rest of the parent group.
- Are at least 51% voting-controlled by the group.

Strategically important group companies

These are group companies with ratings that we consider to be supported by external factors that affect the group and that display many core group characteristics but that a rating committee concludes fall short of unequivocal eligibility for such status. Initially, we will assess all group entities that we designate as strategically important on a stand-alone basis, essentially on their intrinsic merits. The key characteristics we analyze are the operating performance, market position, and capital adequacy of each strategically important subsidiary. However, based on our analysis of a strategic company's importance to the overall organization, our final public rating on it usually will incorporate some additional credit for the likelihood of ongoing group support. In most instances, we will assign three notches (one full rating grade) of support to the stand-alone rating on a strategically important subsidiary.

Standard & Poor's does not believe that an organization's commitment to a strategically important subsidiary is as strong as its commitment to a core subsidiary. Therefore, in general, we will not bring the strategically important subsidiary rating up to the rating on core group members. In other words, our ratings on a strategically important subsidiary, including implied support, will be at least one notch below the ratings we assign to core group members. However, in some limited circumstances, strategically important subsidiaries to which the group is strongly committed could have the same ratings as those on the core group members. For Standard & Poor's to make this assessment, we must be confident that the group has a particularly strong commitment to these entities. To the extent that these entities demonstrate ongoing performance problems, that Standard & Poor's believes management is re-evaluating its commitment to these operations, or that they are part of a corporate restructuring, we will establish a ratings gap between the subsidiary rating and the rating on the group.

We define strategically important subsidiaries as those that:

- Share most of the core characteristics identified above but do not exhibit the necessary size and/or capital adequacy required for core status.
- Are important to the group's long-term strategy but operate more on a stand-alone, autonomous basis.
- Do not share the same name, or have a different name that does not appear to have high brand value. (In such instances, our concern is that the different name is used as a way to distance the parent company from the subsidiary.)
- Even if not of sufficient size and capitalization to meet core requirements, are nonetheless prudently capitalized for their business risk and within their market environment, with the level of capitalization at least being assessed by a rating committee as clearly compatible with an investment-grade rating.
- Group management appears committed to and unlikely to sell. The rating committee may nonetheless conclude that group commitment might only be valid over a finite period.

910779 | 300004777

- Share the same customer/distribution base and many other characteristics with the core group but where we believe the nature of the business transacted is of a distinctly higher risk profile than is normal elsewhere within the group and could constitute a potentially significant threat to the earnings and/or financial strength of the consolidated group.
- Are reasonably successful at what they do or have, in our view, realistic medium-term prospects of becoming successful relative both to group management's specific expectations of the subsidiary and to the earnings norms achieved elsewhere within the group. We would view subsidiaries that seem likely to underperform group management's expectations and group earnings norms over the medium to long term as not being strategically important.
- Are unlikely to be sold even though the product line and/or market isn't core to the group. An example might be a major subsidiary with a significant but difficult-to-quantify book of latent or contingent liabilities.

We normally view significant acquisitions as no more than strategically important, rather than core, at least during their first year or two within the group. The sooner the group assimilates a major acquisition, the faster we could view it as being a core subsidiary. On the other hand, significant and sustained operating deterioration or earnings underperformance at a core unit could prompt us to reclassify it as strategically important or even nonstrategic (see below).

Unless the group has established international status, we may view subsidiaries located in countries or regions other than the de facto country or region of domicile of the parent as strategic, but usually not as core. This is especially true for subsidiaries in emerging markets. In addition, because of the higher risk of investments in emerging markets, even if we view a subsidiary there as being of strategic importance that might still not prove sufficient for a rating committee to assign it a rating more than one or two notches above its basic stand-alone rating (rather than the three notches we commonly accord for strategically important status elsewhere).

In some infrequent instances, we may regard subsidiaries as strategically important to the enterprise even though they clearly operate outside the mainstream business of the company. These companies' products might typically be sold to different customer groups and through different distribution channels than those of the group's principal companies. The management of these operations might not be closely integrated into the group. Nevertheless, Standard & Poor's may judge these operations to be an important part of the group's ongoing strategy if group management has demonstrated a strong commitment to the subsidiary, and we believe it's unlikely the group will sell the subsidiary. In these rare situations, Standard & Poor's typically will impute two notches of group support into the final public ratings. We may also impute two notches of support in cases when a rating committee judges it prudent only to recognize the integration benefits of a recently completed acquisition if they in fact appear over time.

On occasion, a rating committee may assign more than three notches of credit to our stand-alone assessment of a strategically important group company if particular circumstances warrant it. This could occur in cases where the subsidiary is too new for us to assess it highly on a stand-alone basis but where the rating committee judges that there is nonetheless a very substantial commitment by the parent to support the operation. In particular, this could include subsidiaries with stand-alone ratings that suffer because of a lack of economies of scale due to their start-up nature. We would expect these subsidiaries to grow into a higher stand-alone rating, thus justifying their parental commitment. For example, recently launched subsidiaries with a viable but unproven business plan (such as selling via the Internet or by telephone rather than by traditional methods) could fall into this category. We normally would not view mature operations as meeting these circumstances.

910779 | 300004777

It is worth noting that we often view strategically important status as being a dynamic state where the subsidiary in question is either evolving toward full core status, or where we perceive its prospective strategic significance to the parent group as being increasingly questionable. We would consider the failure of the group to support any subsidiary that is experiencing financial or operating deterioration as cause for subjecting the supported rating on the subsidiary to severe scrutiny. In addition, putting up for sale or divesting a subsidiary for which we have factored support considerations into its rating would inevitably trigger our reassessment of the rating. In some cases, we might find it appropriate to remove the support from the rating immediately, such as when the subsidiary will be spun off and a committee is able to assess its credit quality on a pro forma basis. In other cases, especially when the regulatory and market framework would likely prevent a severe decline in creditworthiness from occurring, we may find it appropriate to wait before taking any rating action other than placing the rating on CreditWatch.

Nonstrategic group companies

Standard & Poor's classifies nonstrategic subsidiaries as akin to passive investments. We don't consider them strategic, long-term holdings of the group, and their ratings reflect our view that they could be sold opportunistically in the near or intermediate term. In many instances, we rate these subsidiaries on a purely stand-alone basis, and such ratings would almost invariably be lower than the core group rating. If the subsidiary possesses several strategically important characteristics, if it is not obviously a candidate for sale over the short term, and if we believe the subsidiary would receive parental support were it to experience financial difficulties, then we might add one additional notch of support to the stand-alone rating.

We define nonstrategic subsidiaries as those that:

- Don't meet sufficient criteria of core or strategically important subsidiaries.
- Aren't prudently capitalized (we consider their capitalization inconsistent with an investment-grade rating.)
- Are start-up companies that have operated for five years or less.
- We believe might be sold in the relatively near or intermediate term or be placed in runoff.
- Are highly unprofitable or marginally profitable and for which we think there is little likelihood of a turnaround or of additional support from the group.
- Are in ancillary, nonstrategic businesses.

Rating Core Or Strategically Important Subsidiaries Higher Than The Core Group Rating

There could be rare situations in which we recognize that a subsidiary has operational characteristics in its own right —other than just superior capital adequacy — that cause it to request and clearly merit consideration for a rating above the core group level. We typically rate such subsidiaries at most up to two notches above the applicable core group rating. However, to be so rated, the subsidiary must exhibit, in our view, superior business and operating characteristics relative to the rest of its group and be demonstrably severable and independently sustainable if the parent group for some reason gets into serious difficulties.

Moreover, faced with the hypothetical scenario of such severance occurring, the rating committee would need to feel confident that the higher-rated entity would be able to maintain its capitalization unimpaired (i.e., its assets would not be liable to seizure by creditors elsewhere in the group) while remaining able to operate effectively outside the former parent group. We would usually regard the superior and sustainable financial profile of the entity relative to its main parent group as being further protected if there is outside minority ownership of 10% to 20% with effective

board representation and if its distribution channels are autonomous from the rest of the group. In addition, we might also find compelling a clear economic incentive for a sustained higher rating.

In such situations, Standard & Poor's typical analytic stance would be to deconsolidate the capital used to fund this higher-rated subsidiary from the analysis of the residual capital available to the rest of the parent group. If we considered the resources held at the higher-rated entity to be unavailable to the rest of its group, we could lower the standard core group ratings. This analytic adjustment may in turn further restrict our initially determined higher rating on the subsidiary because under our criteria we will generally not assign a rating of greater than two notches between a higher-rated subsidiary and its parent group.

Segmented Ratings: Rating Subsidiaries One Category Above The Rating On The Group

We may rate a subsidiary up to one category (three notches) above the group rating if we believe the subsidiary's stand-alone business, operating, and capital characteristics can support it and also assuming that we can properly evaluate the subsidiary on a segmented basis. These segmented ratings require a greater degree of protection of the subsidiary's financial strength in the event of financial stress at the group than would exist in the situation outlined in the previous section. As mentioned above, in such situations, we would deconsolidate the capital necessary to support this higher-rated subsidiary from the analysis of the total consolidated capital position, and this could reduce the group rating, which, in turn, could restrict the initially determined higher rating on the subsidiary.

For us to evaluate group subsidiaries on a segmented basis, the following would be necessary:

- The subsidiary should be severable, in our view, from the group and able to stand on its own or to subcontract certain functions previously provided by the parent.
- Standard & Poor's would have reviewed an opinion by outside counsel of the group concluding that the subsidiary would not be taken into administration (or equivalent) in the event of insolvency of the parent-company.
- Standard & Poor's would have received a letter from the parent covering the dividend policy of the subsidiary and certifying the independent integrity of the subsidiary.
- There would exist either an independent trustee with the ability to enforce the protection of the rights of third parties, or outside ownership of at least 20% with some independent membership on the board of directors.

In all cases, there should be an economic basis for the parent's commitment to maintain the capital to support the higher rating on the subsidiary.

Evaluating Start-Ups Under Group Methodology

Traditionally, we haven't regarded startups (operations with a business track record of five years or less) as strategically integral to financial services groups because of their lack of a proven operating history and our perception that there could be more volatility in their earnings than in non-startup operations. In view of these issues, Standard & Poor's generally will not view startup operations as core to financial services groups. One exception to this policy is the emergence of a growing number of newly established, tax-efficient subsidiaries set up in centers such as Dublin, Bermuda, the Cayman Islands, and the Channel Islands. To the extent that these subsidiaries are set up specifically to serve an important number of existing customers with similar products and

services with which the group has had longstanding relationships, Standard & Poor's can consider such subsidiaries core to the group despite their recent creation. If the subsidiary only serves a small cross section of customers or primarily will get business from a new set of customers, at most we will consider the entity strategically important to the group.

Groups often set up new subsidiaries to sell the same products in a different geographic locale or to sell new products to their existing customer base. We may consider startup entities that sell essentially the same products in a different locale strategically important to the group if they meet most of our criteria for strategically important entities. Likewise, we may consider start-up entities that sell new products to an existing core customer strategically important to the group if they too meet most of our criteria for strategically important entities. A letter from management covering the group's strategic intent for the subsidiary might be helpful in this regard.

If Standard & Poor's has been asked to rate a subsidiary and not the entire organization, we reserve the right to undertake sufficient analysis of the group to determine the subsidiary's potential vulnerability to a weak member of the group, including the parent company. We might not rate the other group members, but we will capture their financial and business characteristics in the analysis that ultimately leads to the single rating on the given subsidiary.

Net-Worth-Maintenance Agreements

Issuers may use explicit support to raise the rating on both strategically important and nonstrategic entities within a group. Forms of explicit support that we take into consideration are guarantees and, in some cases, net-worth-maintenance agreements. A full guarantee that provides for timely cash payments can raise the relevant ratings to the level of the guarantor's. In addition, companies sometimes use strongly worded net worth maintenance agreements as a means of explicit support for both strategically important and nonstrategic subsidiaries, for instance in cases where a guarantee is legally not possible.

Under Standard & Poor's group ratings methodology, we may raise the rating on a subsidiary that we consider strategically important to the group and that has received a net worth maintenance agreement that we view as sufficiently strong as explicit support to one notch below the rating on the entity providing the support. In the case of a nonstrategic subsidiary, a net worth maintenance agreement that in our view provides solid support to the subsidiary may lead us to raise the rating on the subsidiary by one rating category above its stand-alone rating but no higher than one notch below the core group rating. We usually will take a net worth maintenance agreement into consideration only when we believe that policyholders or other third-party beneficiaries, such as regulators, can enforce the agreement.

In some circumstances, we may assign highly rated, strategically important subsidiaries the same ratings as those on other core group members—if they have received what we view as a very strongly worded net worth maintenance agreement from a core group member. For this to happen, Standard & Poor's would have to be confident that there is a particularly strong commitment by the group to these entities. To the extent that these entities demonstrate performance problems, Standard & Poor's believes management is re-evaluating its commitment to these operations, or they are part of a corporate restructuring, we usually will maintain a gap of one notch between the subsidiary's rating and that on the group.

910779 | 300004777

Maintenance of tangible net worth

A strong net worth maintenance agreement will typically provide that the subsidiary will be prudently capitalized using a multiple of a regulatory solvency margin or regulatory risk-based capital ratio. Management's written statement of intention to maintain the appropriate level of capitalization in line with Standard & Poor's measures of capital adequacy would also be taken in consideration. We usually would view it as a negative if the parental support under the agreement was capped.

Liquidity

The agreement usually would also provide that the parent will cause the subsidiary to have sufficient cash for the timely payment of contractual obligations issued by the subsidiary.

Rights of policyholders

We consider essential the ability of policyholders or other third-party interests, such as regulators, to have a direct right to enforce the agreement against the parent if the subsidiary fails to perform its obligations.

Modification and termination

The agreement should provide that it cannot be modified or terminated if this would adversely affect the policyholders' or beneficiaries' interests. We would view clauses in which the parent agrees to support all policyholders existing at the time of termination or to sell the subsidiary only to an entity with the same rating as the parent's as indicative of stronger support. We generally would expect the agreement to be binding on successors and assigns of the parent. The agreement may provide that it will terminate when the subsidiary receives a stand-alone credit rating equal to the supported rating.

Guarantees

The term "guarantee" can apply to any form of guarantee, including a parent guarantee, a debt-purchase agreement, a surety bond, a letter of credit, or—in certain circumstances—an insurance contract. In transactions using guarantees as a form of credit enhancement, the evaluation of the creditworthiness of the primary obligor is shifted to an evaluation of the creditworthiness of the guarantor and the compliance of the guarantee with certain criteria. Standard & Poor's guarantee criteria are intended to provide us comfort that there are no circumstances that would enable the guarantor to be excused from making a payment necessary for paying the holders of the rated securities.

Guarantees that we rely on generally should have the following characteristics:

1. The guarantee is one of payment and not of collection.

2. The guarantee provides that the guarantor agrees to pay the guaranteed obligations on the date due and waives demand, notice, marshaling of assets, etc.

3. The guarantor's obligations under the guarantee rank pari passu with its senior unsecured debt obligations.

4. The guarantor's right to terminate the guarantee is appropriately restricted. This would typically mean that the guarantee does not terminate before the rated obligations are paid in full. In addition, we generally expect the guarantee to be binding on successors and assigns of the guarantor.

5. The guarantee is unconditional, irrespective of value, genuineness, validity, or enforceability of the guaranteed obligations. The guarantee provides that the guarantor waives any other circumstance or condition that would

normally release a guarantor from its obligations. The guarantor also should waive the right of set-off, counterclaim, etc.)

6. In connection with lease transactions, the guarantee also should provide that in the event of a rejection of a lease in a bankruptcy proceeding, the guarantor will pay the lease payment, notwithstanding the rejection and as though the rejection had not occurred.

7. The guarantee provides that it reinstates if any guaranteed payment made by the primary obligor is recaptured as a result of the primary obligor's bankruptcy or insolvency.

8. The holders of the rated securities are third-party beneficiaries of the guarantee. This may include policy holders.

9. In the case of cross border transactions, the risk of withholding tax with respect to payments by the guarantor may need to be addressed. In addition, we would typically expect a guarantor to subject itself to jurisdiction and service of process in the jurisdiction in which the guarantee is to be performed.

All guarantees are unique to the specific circumstances of the guarantor and guaranteed entities and/or obligations. Consequently, Standard & Poor's reviews each guarantee against these criteria on a case-by-case basis. The analyst will review management's intent, making sure that it is aligned to the guarantee. In providing a rating uplift after reviewing a guarantee, Standard & Poor's would expect the guarantee to be long term. If we view the guarantee as shorter than the obligations it supports, we likely will not grant the rating uplift.

Standard & Poor's expects beneficiaries of the guarantee to be able to enforce it. We may require legal opinions that demonstrate that the guarantee is enforceable and that existing policyholders remain protected even after termination.

When a guarantee is used to enhance the financial strength rating of an insurance company through the guarantee of only policy obligations, that entity will not have a counterparty credit rating, since the guarantee does not support non-policyholder obligations. Standard & Poor's regularly reviews guarantees that enhance financial strength in line with our current guarantee criteria.

Health Insurer Differences

More so than other insurance lines, health plans are generally organized with separate legal entities by state, and by product (HMO business is often regulated differently than PPO business).

Under Standard & Poor's criteria for group ratings, we typically view separate legal entities either as core, strategic, or non-strategic. We usually view an entity as core to the health plan when it is operating as a division or profit center within the overall enterprise and exhibits a similar business, customers, distribution, and administration systems. Further, the core entity should be adequately capitalized (at least consistent with the 'BBB' level of Standard & Poor's model), and have at least $10 million of surplus. However, if core status characteristics are less evident or non-existent, we may decide that strategic or nonstrategic group status may be more appropriate.

Standard & Poor's reviews the strategic nature of rated legal entities within the group on an ongoing basis. To the extent that, in our view, the strategic importance of subsidiaries is called into question, we may adjust the degree of support embedded in the ratings.

910779 | 300004777

Standard & Poor's generally analyzes all HMOs under a holding-company structure as a group. Usually, various functions—such as financial and capital management, corporate strategy, and underwriting—are performed centrally at the holding-company level, and individual operating units are created to meet local regulatory requirements. Generally, if the operating units meet core subsidiaries' requirements (as mentioned above), we will assign them the same rating as other similar sister operating companies. However, there could be exceptions to this, and in some cases, Standard & Poor's might require additional information and documentation.

We generally analyze multi-state HMOs on a stand-alone basis—but with some additional nuances. The competitive position of an HMO unit within a large national managed care organization is intertwined with other product offerings of the organization (risk or nonrisk preferred provider organization products) and we evaluate the HMO's franchise value in support the enterprise's competitive position. Standard & Poor's recognizes that HMO products in certain markets could have a lower earnings profile relative to managements' enterprise-wide objectives, but that organizations will continue to offer preferred provider organization and other products in those markets. Furthermore, an HMO's level of capital adequacy is not always indicative of its strategic importance because intercompany transfers—such as management agreements, behavioral health carve-outs, and network utilization fees—will affect statutory results.

We view HMOs as a consolidated subset of the broader enterprise. Therefore we look at the combined HMO's competitive position (which is likely indistinguishable from the competitive position of the national managed care organization), capitalization (as described below), earnings, and liquidity. We would then usually apply the rating on the combined HMO to all core members of the subset. If the individual unit isn't core to the combined HMO, we would consider it nonstrategic to the group and review it on a strictly stand-alone basis.

Health plans use group capitalization for the combined HMO group if Standard & Poor's is comfortable that capital resources will be readily available to the unit(s) to ensure that they will not become capital impaired. The group capital may include capital held at the holding-company level. Standard & Poor's will consider the organization's intent and ability to support the capital requirements of an individual plan. Explicit support in the form of a guarantee usually need not be present. However, if a company announced that it is leaving a particular market, a guarantee from its parent could help it maintain its rating.

Related Criteria And Research

Interactive Ratings Methodology, April 22, 2009

Copyright © 2011 by Standard & Poors Financial Services LLC (S&P), a subsidiary of The McGraw-Hill Companies, Inc. All rights reserved.

No content (including ratings, credit-related analyses and data, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of S&P. The Content shall not be used for any unlawful or unauthorized purposes. S&P, its affiliates, and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions, regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact or recommendations to purchase, hold, or sell any securities or to make any investment decisions. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P's opinions and analyses do not address the suitability of any security. S&P does not act as a fiduciary or an investment advisor. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain credit-related analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com and www.globalcreditportal.com (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.

The McGraw·Hill Companies