Credit

Traditionally, a credit rating looks to the form of an instrument, the promises it makes, and the perceived ability (now, perhaps, willingness) of the Issuer to timely pay the financial obligations it has undertaken in the instrument, i.e. repayment of principal and payment of interest, fully on its respective due date. A “claims paying ability” rating generally looks to the ability of the insurer to pay claims which are likely to occur from time to time, analysing the likelihood of claims occurrence, relative size, premium and investment income, quality and quantity of reinsurance, reserves, capital, and surplus.

- The FlexGIA™ was designed to minimise credit default concerns. Repayment of principal and payment of interest are fully secured by government obligations held by Government approved custodians within the Issuer’s statutory reserves, fully charged, and confirmed by independent accountants as sufficient to cover all policy claims, including principal and interest on FlexGIA™. In the unlikely event of default, payee has immediate access to cash and/or government securities as applicable. Arguably, the credit quality exceeds that of directly owning a government obligation. Credit risk should be equated to government backed securities, and for banks under BIS III, a zero risk capital weight may be appropriate.
- For credit risk valuation purposes for annual interest, we submit that a comparable credit risk spread benchmark is that of a basket of six month Treasuries, agencies, A1P1 paper, demand deposits, and custodied cash. For credit risk valuation purposes for principal, we submit that a comparable credit risk spread benchmark is that of a basket of Treasuries, agencies, and custodied cash without currency, country, or timing risk exposures.

Rate Setting

The interest crediting rate is reset once each year within a series of market based caps and floors, subject to a lifetime cap and floor. Unlike fixed rate “AAA” long dated debt, the indicative value of which increases or decreases with interest rate movements, the FlexGIA™ is designed as a short duration instrument, the indicative value of which, may be maintained at par. It is the optionality of the caps and floors, as well as the prepayment premium (unlike traditional prepayment premiums, is designed to benefit the holder) that gives rise to increases or decreases in the indicative value of the Flex GIA™, around par. RATE SETTING IS NOT A CREDIT ISSUE, NOR PROFIT PARTICIPATION.

- The Issuer looks to its discretionary excess interest reserves (actuarially determined using the methodology prescribed for life insurers), its capital and surplus and if necessary, payments under its affiliate company guarantee (for which the parent also actuarially establishes reserves) to prospectively establish interest crediting rates within the market based caps and floors.
- The rate setting mechanism seeks to maintain the interest crediting rate within market yield bands, promotes prepayment (a benefit for the holder), and allows the Issuer to issue floating rate senior secured obligations in a manner legally compliant with the IGF Act for its underwriting and investment purposes. For the remote possibility that the Issuer could establish the interest crediting rate in a period at below market, the rate setting structure is designed to provide the lender a generally higher return for the yield risk being assumed.