

**FILED**

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INSURANCE REGULATION

Docketed by:    *JK*   



**OFFICE OF INSURANCE REGULATION**

**DAVID ALTMAIER**  
COMMISSIONER

IN THE MATTER OF:

CASE NO.: 257920-20

KROLL BOND RATING AGENCY, LLC

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**FINAL ORDER**

TO: Angela Liang  
General Counsel  
Kroll Bond Rating Agency, LLC  
805 Third Avenue, 29<sup>th</sup> Floor  
New York, NY 10022

The State of Florida, Office of Insurance Regulation (hereinafter referred to as the "Office"), being authorized and directed to administer and enforce the Florida Insurance Code, hereby enters this Final Order as authorized by the provisions of the Florida Insurance Code and Chapter 120, Florida Statutes (2019), to Kroll Bond Rating Agency, LLC, f/k/a Kroll Bond Rating Agency, Inc., (hereinafter referred to as "Kroll").

**FINDINGS OF FACT**

1. Credit rating agencies are for-profit entities whose business is assessing the creditworthiness of issuers and of specific fixed income securities for investors.
2. Kroll, as successor in interest to LACE Financial Corp., was registered as a credit rating agency in 2008. Kroll's European affiliate, Kroll Bond Rating Agency Europe Limited ("KBRA Europe"), was established in 2017.

3. Kroll and its affiliates collectively employ over 400 people in five offices. Kroll has United States offices in Maryland, New York, and Pennsylvania. Kroll's international affiliates also have offices in London, England and Dublin, Ireland.

4. Kroll's address of record with the Office is 805 Third Avenue, 29<sup>th</sup> Floor, New York, NY 10022.

5. Kroll has issued approximately 38,000 ratings on approximately \$2.0 trillion of issuance.

6. Kroll employs a rating team of analysts dedicated solely to rate insurance companies and debt.

7. The Kroll insurance financial strength rating ("IFSR") applies only to insurance operating companies. The IFSR is a measure of the overall financial condition of an insurance operating company with respect to its ability to meet its policyholder obligations. The ratings assigned to insurance holding companies and their obligations are reflected on Kroll's long-term credit scale.

8. The Kroll IFSR is based on the sequential incorporation of the following four credit factors:

- a. A quantitatively-based insurer quantitative assessment ("IQA"), expressed in lowercase letters using Kroll's long-term credit scale. After the application of stress testing, the IQA is converted to a preliminary credit assessment;
- b. A qualitative score for factors that may have financial underpinnings but contain some subjectivity, including balance sheet management, operating fundamentals, company profile, and risk management;

- c. An external consideration score indicating either potential credit support from a parent organization/affiliated group or negative impact from perceived risks outside the insurance operations; and
- d. A potential rating constraint due to currency-transfer risk.

9. Kroll’s eleven IFSR rating definitions are:

AAA	The insurer's financial condition is extremely strong and there is almost no risk of the entity not meeting its policyholder obligations.
AA	The insurer's financial condition is strong and the entity is highly likely to meet its policyholder obligations under severe economic, financial, and business conditions.
A	The insurer's financial condition is sound and the entity is likely to meet its policyholder obligations under difficult economic, financial, and business conditions.
BBB	The insurer's financial condition is adequate but may be susceptible to adverse changes in economic, financial, and business conditions that could affect the entity's ability to meet its policyholder obligations.
BB	The insurer's financial condition is questionable and is susceptible to changes in economic, financial, and business conditions that could affect the entity's ability to meet its policyholder obligations.
B	The insurer's financial condition is weak and is highly susceptible to changes in economic, financial, and business conditions that could affect the entity's ability to meet its policyholder obligations.
CCC	The insurer's financial condition is very weak and changes in economic, financial, and business conditions are likely to affect the entity's ability to meet its policyholder obligations.
CC	The insurer's financial condition is poor and changes in economic, financial, and business conditions are highly likely to affect the entity's ability to meet its policyholder obligations.
C	The insurer's financial condition is very poor and changes in economic, financial, and business conditions will affect the entity's ability to meet its policyholder obligations.
D	Kroll defines the default of an insurance operating company as occurring if the rated entity fails to meet its policyholder obligations.
R	Due to its financial condition, the insurance operating company is under regulatory supervision.

Kroll may append - or + modifiers to ratings in categories AA through CCC to indicate, respectively, upper and lower risk levels within the broader category.

10. Kroll’s long-term debt ratings for insurance holding companies and their obligations are based on an analysis of the following credit factors:

- a. Lead operating company's IFSR (or a weighted average of the IFSRs if the organization is comprised of multiple key insurance operating companies); and
- b. Insurance holding company factors that include:
  - 1) Structural subordination;
  - 2) Regulatory restrictions;
  - 3) Financial flexibility (i.e. financial and operating leverage, double leverage and liquidity, non-insurance business lines); and
  - 4) External support.

11. The United States Securities and Exchange Commission recognizes Kroll as a Nationally Recognized Statistical Rating Organization. See <https://www.sec.gov/ocr/ocr-current-nrsros.html>.

12. KBRA Europe is registered as a credit rating agency with the European Securities and Markets Authority. See [https://www.esma.europa.eu/sites/default/files/library/esma71-99-650\\_kroll\\_bond\\_rating\\_agency\\_europe\\_limited\\_registration\\_0.pdf](https://www.esma.europa.eu/sites/default/files/library/esma71-99-650_kroll_bond_rating_agency_europe_limited_registration_0.pdf).

13. The National Association of Insurance Commissioners ("NAIC") recognizes Kroll as a Credit Rating Provider ("CRP").

14. The NAIC issued CRP credit rating equivalents comparing Kroll to other rating agencies already recognized by Florida. See [https://www.naic.org/documents/svo\\_naic\\_aro.pdf](https://www.naic.org/documents/svo_naic_aro.pdf).

15. Florida recognizes Standard & Poor's, Moody's Investors Service, Fitch Ratings, A.M. Best Company, and Demotech as rating agencies pursuant to section 624.610, Florida Statutes, and Rule 69O-144.007, Florida Administrative Code.

16. For the purpose of Rule 69O-144.007, Florida Administrative Code, the Office finds that Kroll's ratings compare to ratings of Standard & Poor's, Moody's Investors Service, Fitch Ratings, A.M. Best Company, and Demotech as follows:

Rating	Collateral Required	A.M. Best Company	Standard and Poor's	Moody's Investors Service	Fitch Ratings	Demotech	Kroll Bond Rating Agency, LLC
Secure – 1	0%	A++	AAA	Aaa	AAA	A"	AAA
Secure – 2	10%	A+	AA+, AA, AA-	Aa1, Aa2, Aa3	AA+, AA, AA-	A'	AA+, AA, AA-
Secure – 3	20%	A-	A+, A	A1, A2	A+, A	A	A+, A
Secure – 4	50%	A-	A-	A3	A-	n/a	A-
Secure – 5	75%	B++, B+	BBB+, BBB, BBB-	Baa1, Baa2, Baa3	BBB+, BBB, BBB-	n/a	BBB+, BBB, BBB-
Vulnerable – 6	100%	B, B-, C++, C+, C, C-, D, E, F	BB+, BB, BB-, B+, B, B-, CCC, CC, C, D, R	Ba1, Ba2, Ba3, B1, B2, B3, Caa, Ca, C	BB+, BB, BB-, B+, B, B-, CCC+, CC, CCC-, DD	n/a	BB+, BB, BB-, B+, B, B-, CCC, CC, C, D

### CONCLUSIONS OF LAW

17. Section 20.121(3)(a)1., Florida Statutes, provides, in part, that the Office shall be responsible for all activities concerning insurers and other risk bearing entities, including licensing, rates, policy forms, market conduct, and claims. The head of the Office of Insurance Regulation is the Director of the Office of Insurance Regulation, who may also be known as the Commissioner of Insurance Regulation.

18. Section 624.01, Florida Statutes, provides that Chapters 624-632, 634, 635, 636, 641, 642, 648, and 651 constitute the "Florida Insurance Code."

19. The Office is responsible for the administration and enforcement of the Florida Insurance Code and has jurisdiction over the subject matter and Kroll pursuant to section 20.121(3)(a)1., Florida Statutes, and the Florida Insurance Code.

20. Section 624.610(3)(e), Florida Statutes, provides, in part, if the reinsurance is ceded to an assuming insurer not meeting the requirements of paragraph (a), paragraph (b), paragraph (c), or paragraph (d), the Commissioner may allow credit, but only if the assuming insurer holds surplus in excess of \$250 million and has a secure financial strength rating from at least two statistical

rating organizations deemed acceptable by the Commissioner as having experience and expertise in rating insurers doing business in Florida, including, but not limited to, Standard & Poor's, Moody's Investors Service, Fitch Ratings, A.M. Best Company, and Demotech.

21. The Commissioner concludes that Kroll has demonstrated it possesses the experience and expertise in rating insurers to be a rating organization in Florida.

**ORDER**

Based on the foregoing Findings of Fact and Conclusions of Law, it is hereby **ORDERED**:

22. The Commissioner deems Kroll Bond Rating Agency, LLC an acceptable rating agency under section 624.610(3)(e), Florida Statutes, to specify the collateral level assigned to a certified reinsurer.

DONE and ORDERED this 15 day of June, 2020.



*David Altmaier*

David Altmaier, Commissioner  
Office of Insurance Regulation

**NOTICE OF RIGHTS**

Any party to these proceedings adversely affected by this Order is entitled to seek review of this Order pursuant to section 120.68, Florida Statutes, and Rules 9.110 and 9.190, Florida Rules of Appellate Procedure. Review proceedings must be instituted by filing a Petition or Notice of Appeal with the General Counsel, acting as the agency clerk, at 200 East Gaines Street, Tallahassee, FL 32399-4206, and a copy of the same and filing fee with the appropriate District Court of Appeal within thirty (30) days of the rendition of this Order.

**CERTIFICATE OF SERVICE**

I HEREBY CERTIFY that a true and correct copy of this Final Order was sent by U.S. Mail to Angela Liang, General Counsel, Kroll Bond Rating Agency, LLC, 805 Third Avenue, 29<sup>th</sup> Floor, New York, NY 10022, this 17<sup>th</sup> day of June, 2020.



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