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Research Update:

Global Reinsurer Swiss Reinsurance 'AA-' Ratings Affirmed; Outlook Stable

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Overview

- We are affirming our 'AA-' issuer credit and insurer financial strength ratings on global reinsurer Swiss Reinsurance Co. Ltd. (Swiss Re) and its core operating entities.
- We are also affirming the 'A' rating on Swiss Re Ltd, a non-operating holding company--two notches below the 'AA-' ratings on the group's core operating entities. This reflects our standard notching approach.
- The stable outlook on Swiss Re reflects our expectation that the group will maintain an extremely strong competitive position in its markets of operation and continue to generate strong earnings across the group.
- We are also maintaining our CreditWatch with negative implications on Swiss Re ReAssure Ltd. reflecting the potential initial public offering (IPO).

Rating Action

On Oct. 24, 2018, S&P Global Ratings affirmed its 'AA-' issuer credit and financial strength ratings on global reinsurer Swiss Reinsurance Co. Ltd. (Swiss Re). We also affirmed the 'A' ratings on non-operating holding company Swiss Re Ltd and all our ratings on its core and highly strategic subsidiaries, except for Swiss Re ReAssure Ltd. (SRRAL) which remains on CreditWatch negative. The outlook on all the long-term ratings is stable, other than the senior debt issued by SRRAL which remains on CreditWatch developing.

Rationale

The affirmations reflect our view of Swiss Re's very strong globally diversified business risk profile and its extremely strong capital adequacy (i.e. we expect capital adequacy to remain at the 'AAA' level). These positives are partially offset by its moderate risk position, mainly due to its exposure to potential unforeseen large losses from catastrophe events, as demonstrated by the 2017 U.S. hurricane losses. In addition, the Q3 2018 catastrophe and large man-made losses totaled \$1.4 billion for Swiss Re--heavier than we expected but reflecting the nature of the business Swiss Re writes.

The 2017 natural catastrophes contributed to Swiss Re reporting a net income

attributable to common shareholders of only \$331 million in 2017. Following a combination of only modest price increases in 2018 year-to-date and the USGAAP accounting changes for equity investments, Swiss Re reported net income of \$1,006 million for H1 2018.

The pre-tax Q3 2018 catastrophe losses of \$1.4 billion include approximately \$300 million of man-made catastrophe losses, combined with approximately \$1.1 billion of natural catastrophe losses. Of these, Typhoon Jebi (\$0.5 billion) and Hurricane Florence (\$120 million) were the largest components. While not a capital event, the third quarter losses are large for an individual quarter for Swiss Re; cumulative losses for the first nine months are broadly in line with Swiss Re's year-to-date expectations.

Swiss Re has demonstrated its ability to meet financial targets on a group basis, with an average return on equity of nearly 10% per year in 2013-2017 (S&P Global Ratings basis) despite the 2017 catastrophe losses. In particular, the group has a strong history of execution and outperformance in the non-life reinsurance business, as demonstrated by its average combined ratio of around 94% over the same period. This was nearly 2 percentage points better than the immediate peer group of large global reinsurers (S&P Global Ratings basis).

Following the significant catastrophe losses--mainly HIM-related--of about \$1 billion that Swiss Re Corporate Solutions (CorSo) incurred during the first nine months of 2017, Swiss Re recapitalized CorSo with a \$1 billion injection. While CorSo has not performed in line with our expectations, we note that the capital injection demonstrates Swiss Re's commitment to the business.

On Aug. 3, 2018, the Swiss Re Group indicated that it is exploring the possibility of an IPO of its U.K. closed-book consolidator ReAssure (not rated). ReAssure is one of the main operating entities of the Swiss Re Life Capital business unit (SRLC, or the business unit), which we have considered to be highly strategic to the Swiss Re Group.

We understand that, following any potential IPO, the remaining business will comprise ElipsLife and IptiQ (which are both relatively small primary life insurers) and potentially Swiss Re's share in SRRAL. Following this announcement, we expect to review the group status of SRLC.

At this stage, we believe it is unlikely that we will continue to view the business unit as highly strategic following our review. The duration of this review may extend beyond a further 90 days, depending on the timeframe for the potential IPO. Similarly, we are extending the CreditWatch developing on the €750 million 1.375% senior debt instrument due in 2023 issued by SRRAL. In its publication at the time of the announcement, Swiss Re indicated that Swiss Re Ltd. would expect to provide a guarantee to the debt instrument. If that guarantee meets our criteria for credit substitution, then we could raise the rating on the notes to the level of the rating on the guarantor. However, if the guarantee is not put in place, or does not meet our criteria, then the rating on the notes would remain linked to the SRRAL issuer credit rating.

CreditWatch

We are maintaining our CreditWatch with negative implications on SRRAL, reflecting the potential IPO (see "Swiss Re ReAssure Ltd. Ratings Put On CreditWatch Negative Following IPO News," published on Aug. 7, 2018). We are also keeping the CreditWatch developing on the 'A-' ratings on the senior debt issued by SRRAL because we still lack clarity on the support this debt will receive from the Swiss Re Group in the form of a guarantee.

Outlook

The stable outlook on Swiss Re reflects S&P Global Ratings' expectation that the group will maintain an extremely strong competitive position in the life and non-life reinsurance markets. We expect that the group will achieve this by maintaining:

- At least very strong capital levels;
- Strategic risk management practices and disciplined underwriting controls that support profitable growth and diversification, sustaining the group's competitive position; and
- Practices that minimize downside risks in volatile market conditions and allow the group to exploit any profitable opportunities that may arise.

Downside scenario

Over the next 12-24 months we view a downgrade as unlikely. However, we could take this action if a combination of events severely eroded the group's capital base (below the 'AA' threshold). This could happen, for example, if there was groupwide material underperformance together with, for instance, a material loss from an extreme event. While the 2017 and Q3 2018 catastrophe losses have affected Swiss Re's recent earnings, we do not consider these losses large enough, based on Swiss Re's current loss estimates, to trigger a negative rating action.

Upside scenario

We do not anticipate raising the ratings over the next 12-24 months. This reflects our view of elevated industry risk, including low interest rates as well as the extent of any pricing increases following the 2017 hurricane season. That said, we might consider raising the rating if we saw a significantly more favorable pricing environment on a sustained basis in non-life lines, allowing Swiss Re to significantly outperform its peers, as well as sustainable profitability (as demonstrated in recent years) in the U.S. L&H book.

Ratings Score Snapshot

Financial Strength Rating	AA-/Stable
Anchor	aa-
Business Risk Profile	Very Strong
IICRA	Intermediate Risk
Competitive Position	Extremely Strong
Financial Risk Profile	Very Strong
Capital & Earnings	Extremely Strong
Risk Position	Moderate Risk
Financial Flexibility	Strong
Modifiers	0
ERM and Management	0
Enterprise Risk Management	Very Strong
Management & Governance	Strong
Holistic Analysis	0
Liquidity	Exceptional
Support	0
Group Support	0
Government Support	0

Related Criteria

- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings , April 7, 2017
- General Criteria: Guarantee Criteria, Oct. 21, 2016
- General Criteria: Principles For Rating Debt Issues Based On Imputed Promises, Dec. 19, 2014
- Criteria - Insurance - Property/Casualty: Assessing Property/Casualty Insurers' Loss Reserves, Nov. 26, 2013
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- Criteria - Insurance - General: Insurers: Rating Methodology, May 7, 2013
- Criteria - Insurance - General: Enterprise Risk Management, May 7, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- General Criteria: Criteria Clarification On Hybrid Capital Step-Ups, Call Options, And Replacement Provisions, Oct. 22, 2012
- Criteria - Insurance - General: A New Level Of Enterprise Risk Management Analysis: Methodology For Assessing Insurers' Economic Capital Models,

Jan. 24, 2011

- Criteria - Insurance - General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010
- Criteria - Financial Institutions - General: Methodology: Hybrid Capital Issue Features: Update On Dividend Stoppers, Look-Backs, And Pushers, Feb. 10, 2010
- Criteria - Financial Institutions - Banks: Assumptions: Clarification Of The Equity Content Categories Used For Bank And Insurance Hybrid Instruments With Restricted Ability To Defer Payments, Feb. 9, 2010
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Criteria - Insurance - General: Hybrid Capital Handbook: September 2008 Edition, Sept. 15, 2008

Ratings List

Ratings Affirmed

Swiss Reinsurance Co. Ltd.	
Issuer Credit Rating	AA-/Stable/A-1+
Financial Enhancement Rating	
Local Currency	AA-/--/--

Swiss Reinsurance Co. Ltd.	
Westport Insurance Corp.	
Swiss Reinsurance Co. (Australian Branch)	
Swiss Reinsurance America Corp.	
Swiss Re Life & Health Australia Ltd.	
Swiss Re Life & Health America Inc.	
Swiss Re International SE	
Swiss Re Europe S.A.	
Swiss Re Corporate Solutions Ltd.	
Swiss Re Asia Pte. Ltd.	
North American Specialty Insurance Co.	
North American Elite Insurance Co.	
North American Capacity Insurance Co.	
First Specialty Insurance Corp.	
Financial Strength Rating	
Local Currency	AA-/Stable/--

First Specialty Insurance Corp.	
Westport Insurance Corp.	
Swiss Reinsurance America Corp.	
Swiss Re Life & Health Australia Ltd.	
Swiss Re Life & Health America Inc.	
Swiss Re Europe S.A.	
North American Specialty Insurance Co.	

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North American Elite Insurance Co.	
North American Capacity Insurance Co.	
Issuer Credit Rating	
Local Currency	AA-/Stable/--
Swiss Re America Holding Corp.	
Issuer Credit Rating	
Local Currency	A/Stable/A-1
Swiss Re Asia Pte. Ltd.	
Swiss Re Financial Products Corp.	
Swiss Re Corporate Solutions Ltd.	
Issuer Credit Rating	
Local Currency	AA-/Stable/A-1+
Swiss Re Corporate Solutions Insurance China Ltd.	
Issuer Credit Rating	
Local Currency	A+/Stable/--
Financial Strength Rating	
Local Currency	A+/Stable/--
Swiss Re Europe Holdings S.A.	
Issuer Credit Rating	
Local Currency	--/--/A-1
Swiss Re International SE	
Issuer Credit Rating	AA-/Stable/--
Swiss Re Life & Health America Holding Co.	
Issuer Credit Rating	
Local Currency	A/Stable/--
Swiss Re Ltd.	
Issuer Credit Rating	A/Stable/--
Swiss Re Reassure Ltd.	
Issuer Credit Rating	A-/Watch Neg/--
Swiss Reinsurance Co. Ltd.	
Senior Unsecured	AA-
Junior Subordinated	A
Swiss Re America Holding Corp.	
Senior Unsecured	A
Swiss Re Corporate Solutions Ltd.	
Subordinated	A
Swiss Re Ltd.	
Subordinated	BBB+

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Swiss Re Reassure Ltd.
Senior Unsecured

A-/Watch Dev

Swiss Re Treasury (US) Corp.
Senior Unsecured

AA-

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.

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