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Ratings

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Swiss Re Ltd.

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Swiss Re Ltd.

SACP* Assessments							SACP*			Support			Ratings
Anchor	aa-	+	Modifiers	0	=	aa-		+	0		=	Financial Strength Rating	
Business Risk			ERM and Management	0		Liquidity	0		Group Support	0		AA-/Stable/--	
Very Strong													
Financial Risk			Holistic Analysis	0		Sovereign Risk	0		Gov't Support	0			
Very Strong													

*Stand-alone credit profile.
See Ratings Detail for a complete list of rated entities and ratings covered by this report.

Major Rating Factors

In the diagram above, the financial strength rating applies to the core operating subsidiaries of Swiss Re Ltd.

Strengths

- Extremely strong franchise, being one of the largest two reinsurers globally.
- Diversified product suite across non-life and life reinsurance, together with Swiss Re Corporate Solutions (SRCS; primary commercial insurance) and Life Capital (closed- and open-life business).
- Likely to remain very well capitalized under both an S&P Global Ratings-adjusted (at the 'AAA' level) and regulatory basis, even after 2017 catastrophe losses.

Weaknesses

- While this is very much part of the business model, Swiss Re remains beholden to catastrophe risk, as demonstrated during 2017, although the reinsurer remains one of the most diverse globally.
- Weak performance from SRCS in recent years.
- Increasingly difficult to sustainably exceed performance targets given the current pricing and investment environment.

Rationale

S&P Global Ratings' issuer and financial strength ratings on holding company Swiss Re Ltd. (SRL) and its key subsidiaries reflects the company's very strong quantitative and qualitative metrics. The ratings reflect our view of the top tier position SRL holds within the global reinsurance sector, with lead account capabilities across all major lines and geographies. It also reflects our view that the global reinsurance sector is inherently more volatile than many other insurance sectors. Furthermore, the rating on SRL also reflects our view that the group will remain very well capitalized (at the 'AAA' level) even after the recent catastrophe losses. The Swiss Re group (Swiss Re or the group) reported nine months net income of $1.1 billion despite a $1.6 billion hit from natural catastrophes and man-made losses, of which $1.4 billion was incurred in the third quarter.

In 2017, 61% of Swiss Re's net premiums earned (NPE) were from the non-life business (including SRCS), and 39% from life and health (L&H), including Swiss Re Life Capital. The group is also present in many significant markets, with 48% of its NPE generated in the Americas; 31% in Europe, the Middle East, and Africa (EMEA); and 21% in Asia-Pacific. Since 2012, the group has operated through three main business segments: reinsurance, SRCS, and Swiss Re Life Capital (formerly known as Admin Re). Similarly, for the first half of 2018, Swiss Re posted NPE for non-life at 58%, and 42% for L&H.

Outlook: Stable

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 (that is, 'AA') capital levels (we currently expect capital adequacy to remain at the 'AAA' level);
- 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 third-quarter (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.

Macroeconomic Assumptions

Table 1

Economic Forecast Summary -- OECD								
	2014	**2015**	**2016**	**2017**	**2018F**	**2019F**	**2020F**	**2021F**
Key Indicators								
GDP (Real, YOY%)	2.2	2.5	1.8	2.5	2.4	1.9	1.7	1.8
CPI (Avg, YOY%)	1.6	0.5	0.9	2.0	2.3	2.2	2.1	2.2
Unemployment (%)	7.5	6.9	6.5	5.9	5.5	5.4	5.3	5.3

F--Forecast. CPI--Consumer price index. YOY--Year on year. OECD--Organisation for Economic Co-operation and Development. Sources: S&P Global Economics, S&P Global Ratings, Oxford Economics.

Company Specific Assumptions

- Rate reductions experienced in 2017 have abated in 2018 following the U.S. hurricane losses, with average rate increases of 0%-5% expected through 2018. However, we expect the rate increase to fizzle out heading into the 2019 renewals.
- Premium growth of less than 5% annually on a groupwide basis in 2018-2020, driven largely by slightly more favorable pricing conditions than witnessed in 2017. We expect stronger growth for Swiss Re to occur in property/casualty (P/C) reinsurance than in L&H reinsurance.

Table 2

Swiss Re Ltd. -- Key Metrics										
	--Year ended Dec. 31--									
	2020F	**2019F**	**2018F**	**2017**	**2016**	**2015**	**2014**	**2013**	**2012**	**2011**
Gross premiums written (mil. $)	>35,000	>35,000	>35,000	34,775	35,622	32,249	33,276	32,934	31,723	28,664
Net income*	>2,500	>2,500	>2,250	393	3,623	4,668	3,569	4,513	4,398	2,798
Fixed-charge coverage (x)*	>6x	>6x	>6x	(0.3)	6.6	8.4	7.4	7.3	8.6	4.0
Financial leverage (%)	<20.0	<20.0	<20.0	14.9	16.8	18.0	18.6	17.2	20.2	17.0
S&P capital adequacy	Extremely Strong	Extremely Strong	Extremely Strong	Extremely Strong	Extremely Strong	Extremely Strong	Extremely Strong	Extremely Strong	Extremely Strong	Extremely Strong
P/C: Net combined ratio (%)*	95-99	95-99	95-99	115.4	94.8	87.0	85.4	85.7	83.0	101.3
P/C: Net expense ratio (%)	N/A	N/A	N/A	33.1	33.6	33.7	30.0	30.4	30.0	28.4
P/C: Net loss ratio (%)	N/A	N/A	N/A	82.3	61.3	53.3	55.4	55.3	53.0	72.9
Common equity (mil. $)	N/A	N/A	N/A	34,124	35,634	33,517	35,930	32,952	34,002	29,590
Reinsurance utilization (%)	N/A	N/A	N/A	7.1	5.8	5.6	4.9	7.5	20.1	20.2
Return on revenue (%)	N/A	N/A	N/A	(1.9)	9.3	13.8	11.9	14.0	14.7	6.1

Table 2

Swiss Re Ltd. -- Key Metrics (cont.)										
	--Year ended Dec. 31--									
	2020F	2019F	2018F	2017	2016	2015	2014	2013	2012	2011
Net investment yield (%) excluding unit-linked and with-profits	N/A	N/A	N/A	2.8	2.9	2.8	3.2	2.9	3.1	3.1

F--forecast. N/A--Not applicable. Source: S&P Global Ratings.

Business Risk Profile: Very Strong

Swiss Re is naturally exposed to product risk within P/C reinsurance, particularly because catastrophes are naturally unpredictable. A significant proportion of Swiss Re's product offering is exposed to natural catastrophe risk. However, the group's highly diversified product offering and long-established direct client relationships help to insulate it from the more acute pricing and exposure risks that more concentrated reinsurers can experience.

On the life reinsurance side, higher barriers to entry exist (the market is dominated by only a handful of reinsurers), which will likely continue to insulate Swiss Re from the potential destabilizing effects of new entrants, as witnessed with alternative capital within the P/C sector.

Following the significant catastrophe losses--mainly related to hurricanes Harvey, Irma, and Maria--of about $1 billion that SRCS incurred during the first nine months of 2017, Swiss Re recapitalized SRCS with a $1 billion injection. While SRCS has not performed in line with our expectations, we note that the capital injection demonstrates Swiss Re's commitment to the business.

For the first nine months of 2018, the P/C Reinsurance segment reported a profit of $634 million while the L&H Reinsurance segment generated profits of $644 million. SRCS reported a loss of $5 million.

Swiss Re is, and will likely remain, one of the two largest reinsurers globally. The group benefits from a highly recognized brand name, along with meaningful capital buffers above the 'AAA' level, allowing it to offer bespoke and innovative services to its clients, often at better terms than available in the wider market.

While Swiss Re suffered material losses from the 2017 U.S. hurricane season, the group remains one of the most diversified reinsurers, both by line of business and geography.

Financial Risk Profile: Very Strong

Analysis of our capital model indicates that Swiss Re has, and is likely to retain, capital levels consistent with a 'AAA' level under our model. This is currently slightly stronger than the average for the other major European composite reinsurers. Swiss Re deployed additional capital to support underwriting and investment risks in recent years and suffered material catastrophe losses in 2017. Despite this, and the elevated Q3 2018 catastrophe losses of approximately $1.6 billion (predominantly due to typhoons Jebi and Trami in Japan, Hurricane Florence and Carr wildfires in the U.S., and man-made catastrophe losses), we expect that the group will preserve its 'AAA' capital adequacy through 2020. Equally, we expect Swiss Re Group will maintain its regulatory solvency level above 220% on a Swiss Solvency Test basis (1/2018: 269%), even after the 2017 catastrophe losses. As of July 1, 2018, the group's Swiss Solvency Test ratio was an estimated 285%.

Groupwide, we expect Swiss Re to generate average return on equity (ROE) of around 7%-9% in 2018-2020, assuming normalized catastrophe losses. However, we note that Q3 2018 annualized year-to-date ROE performance of 4.7% will likely result in Swiss Re falling short of this metric in 2018, in our opinion. These returns are based on our expectation that net income will exceed $2.25 billion-$2.50 billion through 2018-2020, after a barely breakeven result in 2017. Swiss Re reported a P/C reinsurance combined (loss and expense) ratio of 99.5% at Q3 2018.

We assess Swiss Re's risk position as comparable with the large European reinsurance peers (SCOR, Munich Re, and Hannover Re) and better than some other (more catastrophe-focused) reinsurers. Although we consider that the group's exposure to catastrophe risk could be a source of material capital and earnings volatility, we think that Swiss Re is less vulnerable to this than most reinsurers thanks to its diversified risk profile, strong modeling capabilities, and relatively low catastrophe risk exposure. We do not expect the overall risk profile to change materially in the next two years.

At end-2017, Swiss Re's financial leverage and fixed-charge coverage metrics were 14.9% and 0.3x, respectively (end-2016: 16.8% and 6.6x, respectively). We expect the reinsurer to maintain leverage/coverage of less than 20% and more than 6x, respectively. While healthy, these metrics are slightly weaker than the average for the other major European composite reinsurers.

Other Assessments

We assess Swiss Re's enterprise risk management (ERM) as one of the strongest in the sector. It is unlikely, in our view, that the reinsurer will experience losses greater than its risk tolerance. We see ERM as highly important to the rating given the complexity of the group's business model and its exposure to significant capital and earnings volatility. Our view of very strong ERM is based on our positive assessments of Swiss Re's risk management culture, risk controls, and emerging and strategic risk management. We anticipate that these capabilities will enable the group to continue to optimize capital allocation and earnings and enhance its risk-return profile. We also factor in our assessment of the group's economic capital model(ECM) as good.

Swiss Re's management and governance assessment is based on the strong and experienced management. The team has established a track record of strong execution against its groupwide targets, a robust strategic planning process, and comprehensive financial and operational standards in place. While there have been a number of high-level personnel departures during the past 12 months, we consider Swiss Re's bench-strength (that is competent employees ready to fill leadership positions) as sufficient to absorb these departures.

We expect Swiss Re's liquidity to remain exceptional, owing to the strength of available liquidity sources, mainly premium income, and a highly liquid asset portfolio that contained about $144 billion of invested assets as of year-end

2017.

Table 3

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

*Insurance Industry and Country Risk Assessment.

Other Considerations

Government/Other support

Not applicable in the case of Swiss Re.

Group ratings methodology

We treat both the reinsurance division and SRCS as core to Swiss Re, and currently consider Life Capital as highly strategic. The reinsurance business unit constitutes the Swiss Re group's principal operation and has been the foundation of its business activity for over 150 years, comprising both non-life and L&H segments. In its L&H segment, Swiss Re exhibits significant efficiencies of scale and has an extensive global network of offices. The non-life segment also enjoys a global presence and wide product offering. We estimate that over half of Swiss Re's non-life reinsurance is placed directly with clients, and that over half is written on a proportional basis.

We consider SRCS as core to the group, while we assess Swiss Re Corporate Solutions China as highly strategic. SRCS focuses on writing direct non-life insurance for large corporate clients. The business unit is currently weighted toward the Americas, but there is increasing focus on EMEA and Asia-Pacific. SRCS has existed under various other segments of the group for more than 15 years. SRCS comprised around 11% of group net earned premiums in 2017 and 7% of group shareholders' equity. Following significant catastrophe losses (of approximately $1 billion) in SRCS during the first nine months of 2017, Swiss Re injected $1 billion of capital into SRCS.

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 (both relatively small primary life insurers) and potentially Swiss Re's share in Swiss Re Reassure Ltd. (SRRAL). Following this announcement, we expect to review the group status of SRLC.

At this stage, we do not expect to 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 extended the CreditWatch with developing implications on the €750 million 1.375% senior debt instrument due in 2023 issued by SRRAL on Oct. 24, 2018 (see "Global Reinsurer Swiss Reinsurance 'AA-' Ratings Affirmed; Outlook Stable"). 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 issuer credit rating on SRRAL.

Accounting considerations

Our analysis is based primarily on financial data prepared in accordance with U.S. generally accepted accounting principles.

Among other items, within our analysis of the group's capital adequacy, we have granted partial credit for the off-balance-sheet portion of the value-in-force of Swiss Re's life portfolio, as well as Swiss Re's ECM (as mentioned above).

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

Related Research

- Global Reinsurer Swiss Reinsurance 'AA-' Ratings Affirmed; Outlook Stable, Oct. 24, 2018
- Global Reinsurance Highlights 2018, Oct. 4, 2018
- Reinsurance Pricing Was Up At The January Renewals, But Will The Momentum Continue Or Fizzle Out? Jan. 23, 2018

Ratings Detail (As Of November 14, 2018)	
Operating Company Covered By This Report	
Swiss Reinsurance Co. Ltd.	
Financial Strength Rating	
Local Currency	AA-/Stable/--
Issuer Credit Rating	AA-/Stable/A-1+
Financial Enhancement Rating	
Local Currency	AA-/--/--
Junior Subordinated	A
Senior Unsecured	AA-
Domicile	Switzerland

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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