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Swiss Re Group

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Swiss Re Group

Credit Highlights

Holding Company: Swiss Re Ltd.
Issuer Credit Rating
A/Stable/--
Operating Company Covered By This Report
Financial Strength Rating
Local Currency
AA-/Stable/--

Overview

Strengths	Risks
Excellent franchise, being one of the top reinsurers globally.	Exposed to natural catastrophe risk in common with its peers.
Diversified product suite across non-life and life reinsurance.	Weak performance from Corporate Solutions.
Likely to remain very well capitalized ('AAA' level), at least at the 'AA' level.	Difficulty in meeting performance targets consistently given the still-challenging pricing and low investment return environment.

Swiss Re Group will maintain its top tier position within the global reinsurance sector and actively develop its primary life and non-life business. As of June 2019, about 50% of Swiss Re's net premiums earned (NPE) emanates from the non-life reinsurance business unit, 35% from Life & Health reinsurance, 10% from corporate solutions (CorSo; primary non-life business), and 5% Life Capital (primary business). The group is also present in many significant markets, and generates about 47% of its NPE in the Americas, 32% in Europe, the Middle East, and Africa (EMEA), and 21% in Asia-Pacific based on 2018 NPE.

Difficulty in meeting performance targets consistently given the still-challenging pricing and low investment return environment. Like its peers, Swiss Re continues to face challenging business conditions in non-life reinsurance, despite some modest rate increases in 2018 and in the first half of 2019, after record back-to-back catastrophe losses in 2017 and 2018. Overall, we expect that the group is likely to post a combined ratio of 99% for year-end 2019 and a return on equity between 7%-9%. This is broadly in line with our expectations for Swiss Re's peers.

Likely to maintain 'AAA' level risk-based capital--slightly better than the average for other major European peers. Our base-case assumption is that the group is likely to maintain its 'AAA' level capital over 2019-2020, supported by retained earnings and hybrid issuances to support growth. We note that the group has increased its natural catastrophe exposure back to similar levels in 2015, partly reflecting favorable renewals in 2019 owing to the hardening market. Furthermore, the group launched a CHF1 billion share buyback program and may launch another CHF1 billion before year-end 2019. We do not expect these actions to dent the group's capital position, mostly because we expect sufficient earnings retention over the coming years to maintain a robust level of capitalization.

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Outlook

The stable outlook on Swiss Re reflects our expectation that the group will maintain an excellent competitive position in life and non-life reinsurance markets. We expect that the group will achieve this by maintaining:

- At least 'AA' capital level (we expect capital adequacy to remain at the 'AAA' level over 2019-2020);
- 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 and a significant loss from an extreme event.

Upside scenario

We do not expect to raise the ratings over the next 12-24 months. This reflects the challenging pricing conditions in the group's main business lines and the additional pressure on earnings emanating from the low interest rate environment. We might consider raising the rating if we saw a significantly more favorable pricing environment on a sustained basis in non-life business lines, allowing Swiss Re to outperform its peers and generate sustainable profitability. In addition, prospects for an upgrade would be supported by a material and consistent contribution from its primary insurance operations.

Key Assumptions

- Stable outlook on the global reinsurance sector and on the majority of the reinsurers we rate.
- Global reinsurers to benefit from still-robust capital adequacy, disciplined underwriting, strong risk management capabilities, and hardening reinsurance pricing environment.
- Swiss Re to achieve at least low-single-digit rate increases over the next 12 months, following the general property and casualty reinsurance (P&C Re) price increase of 2% for July renewals, a general price increase of 1% for April renewals, and a 7% increase for Japan.
- Premium growth for 2019 year-end between 10%-15%, taking into account 15.7% growth at the end of June 2019 (compared to the same period in 2018), reflecting price increases and new business.
- Modest growth in 2020 (near 5%).

Key Metrics

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Key Metrics

			--Year ended Dec. 31--				
	2020f	**2019f**	**2018**	**2017**	**2016**	**2015**	**2014**
Gross premiums written (mil. $)	>40,000	>36,000	36,406	34,775	35,622	32,249	33,276
Net income	>2,500	>2,500	481	393	3,623	4,668	3,569
Common equity (mil. $)	N/A	N/A	27,930	34,124	35,634	33,517	35,930
P/C: Net expense ratio (%)	N/A	N/A	32.4	33.1	33.6	33.7	30.0
P/C: Net loss ratio (%)	N/A	N/A	74.2	82.3	61.3	53.3	55.4
P/C: Net combined ratio (%)	95-99	95-99	106.6	115.4	94.8	87.0	85.4
Reinsurance utilization (%)	N/A	N/A	6.5	7.1	5.8	5.6	4.9
Fixed-charge coverage (x)	>4	>4	2.4	(0.3)	6.6	8.4	7.4
Financial leverage(%)	<25	<25	20.9	N/A	N/A	N/A	N/A
S&P capital adequacy	Extremely Strong	Extremely Strong	Extremely Strong	Extremely Strong	Extremely Strong	Extremely Strong	Extremely Strong
Return on revenue (%)	N/A	N/A	2.5	-1.9	9.3	13.8	11.9
Net investment yield (%) excluding U/L and With Profits	N/A	N/A	3.2	2.8	2.9	2.8	3.2

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

Business Risk Profile

The pricing environment, particularly in P&C Re, remains challenging. This, coupled with low investment returns and significant excess capacity in the sector, continues to pressure Swiss Re and reinsurers including its close peers. Some reinsurers are finding it difficult to cover their cost of capital because of the difficult market conditions. To mitigate this, the sector has employed various strategies: providing highly tailored reinsurance solutions, pairing up with alternative capital providers, consolidation, enhancing digital capabilities, and exploring opportunities to close the protection gap.

Swiss Re benefits from a highly recognized brand name, as well as its 'AAA' capital level, both of which help it to offer bespoke and innovative services to its clients, often at better terms than others in the wider market. The group's highly diversified product offering and long-established direct client relationships insulate it from the more intense pricing and exposure risks that more-concentrated reinsurers experience. In addition, the group is actively optimizing capital allocation to manage the pricing cycle.

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 seen with alternative capital within the P/C sector.

Key highlights in 2019

CorSo's weak results in recent years have led to corrective actions such as targeted portfolio renewal, price increases, protection of back book (adverse reserve development cover with Swiss Reinsurance Co. Ltd. [SRZ]), capital injection,

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and improving the reinsurance structure. We believe these measures should enable the group to post underwriting profit by year-end 2021 as per its business plan (see below for details). We recognize the group's commitment to this business unit, supported by a second capital injection of $600 million in 2019 to restore its capitalization.

The group continues to grow its open book business in the Life Capital business unit, which provides access to the primary life and health insurance market through "iptiQ" and "elipsLife". At this stage, the total premium from this segment is small, albeit growing at high rates. For example, elipsLife's gross premiums increased by 11% in in the first half of 2019 while those of iptiQ rose by 18%. The group is committed to this segment as it provides opportunities for growth.

The group suspended the planned initial public offering of ReAssure (for details see "Swiss Re ReAssure Ltd. Ratings Remain On CreditWatch Negative Following Suspension Of IPO," published July 15, 2019). ReAssure is in the process of acquiring the U.K. closed book business of Quilter PLC for £425 million, which it will fund through internal resources. The acquisition will add over 200,000 customer policies and £12 billion of assets to ReAssure's platform, increasing policy count to 4.5 million and assets under administration to £81 billion. The acquisition is likely to complete by the end of 2019, subject to regulatory approval. We expect this transaction to have minimal impact on ReAssure's solvency ratio (145%), particularly because acquired business is capital-light (unit-linked business).

Financial Risk Profile

We forecast that the group will maintain its 'AAA' level risk-based capital (measured using our capital model) over 2019-2020, taking into account our assessment of the group's economic capital model (which we assess as good in common with SCOR, Munich Re, and Hannover Re). When compared to close peers, the group's capital is stronger. On the regulatory side, we expect Swiss Re to maintain its solvency level above 220% on a Swiss-solvency test basis (1/2019: 251%). We do not expect material changes to the group's solvency ratio for year-end 2019-2020.

We note that the group has significantly increased its natural catastrophe exposure in 2019 (similar levels to 2015) when compared to 2018 (for example, Tropical Cyclone North Atlantic exposure increased by 40% to $6.5 billion net of retrocession). Higher exposures reflect growth through 2019 renewals and better market conditions. We expect this growth to boost the group's earnings. Swiss Re is willing to return excess capital, as demonstrated by its announcement in April 2019 of two share buyback programs (CHF1 billion each)--of which one is non-conditional (launched on May 6, 2019) and one conditional, which may be launched before year-end 2019. We do not expect the increase in natural catastrophe exposure and the share buyback to materially reduce the group's risk-based capital. Swiss Re regularly accesses the capital markets and, if needed, is well positioned to raise capital through various instruments. We expect it to maintain leverage/coverage close to 20% and more than 6x, respectively.

We expect the group to retain sufficient levels of earnings to maintain its robust capital level. We also expect Swiss Re to post a net combined ratio of 99% and a ROE of 7%-9% for 2019-2020, assuming normalized catastrophe losses. The net income is likely to be between $2.25 billion-$2.5 billion. For first-half 2019, the group posted a net income of $953 million ($1 billion for same period in 2018), with a good return on equity (ROE) of 6.6% (6.3% in first-half 2018).

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P&C Re segment

Swiss Re is targeting a normalized combined ratio of 98%, assuming an average large natural catastrophe loss and excluding prior-year reserve development (PYD), and expects this to translate to a ROE above 11%. We believe that the group may find it challenging to achieve this target given that this segment posted a net combined ratio of 100.5% for the first half of 2019, although ROE reached 15.9% owing to healthy investment returns. These results benefited from benign cat losses during the first half, but were constrained by adverse PYD of $451 million, mostly from the loss creep from Typhoon Jebi during the first quarter of 2019, in common with most peers.

CorSo

The group expects to improve its combined ratio to 98% by year-end 2021, assuming an average large natural catastrophe loss and excluding PYD, and expects this to translate to a ROE between 10%-15% (more likely to be at the lower end owing to challenging pricing conditions). The group posted a net loss of $403 million, 132.8% combined ratio, and a ROE of -40.5% for first-half 2019. Results were constrained by PYD of $328 million, mostly from 2017 and 2018 accident years.

Life Health Re

This segment continues to provide good earnings diversification. The group posted a healthy net income of $459 million, with ROE of 13.1% supported by favorable equity market performance and realized gains on fixed income instruments and improved mortality developments in the Americas.

Life Capital

After the above-mentioned divestment of ReAssure, this segment's scale will reduce materially given that the open book is small (see above for details). The net income of Life Capital reduced to $5 million for the first six months of 2019 ($34 million first-half 2018), mainly due to losses on equity derivatives and expenses related to the separation of ReAssure into a stand-alone group.

On the overall group exposure, we assess Swiss Re's risk profile as comparable with the large European reinsurance peers SCOR, Munich Re, and Hannover Re. Although we consider that the group's exposure to catastrophe risk could be a source of material capital and earnings volatility, we think that it is unlikely to experience losses greater than its risk tolerance. Furthermore, Swiss Re is less vulnerable to this than most reinsurers thanks to its diversified risk profile, and strong modelling capabilities.

In general, when compared to peers the group has historically outperformed peers during benign cat years and underperformed during heavy cat years as seen in 2017 and 2018 (see chart 1). This is because the group generally purchased less (retro)/reinsurance than peers. This trend may change as the group intends to buy more (retro)/reinsurance.

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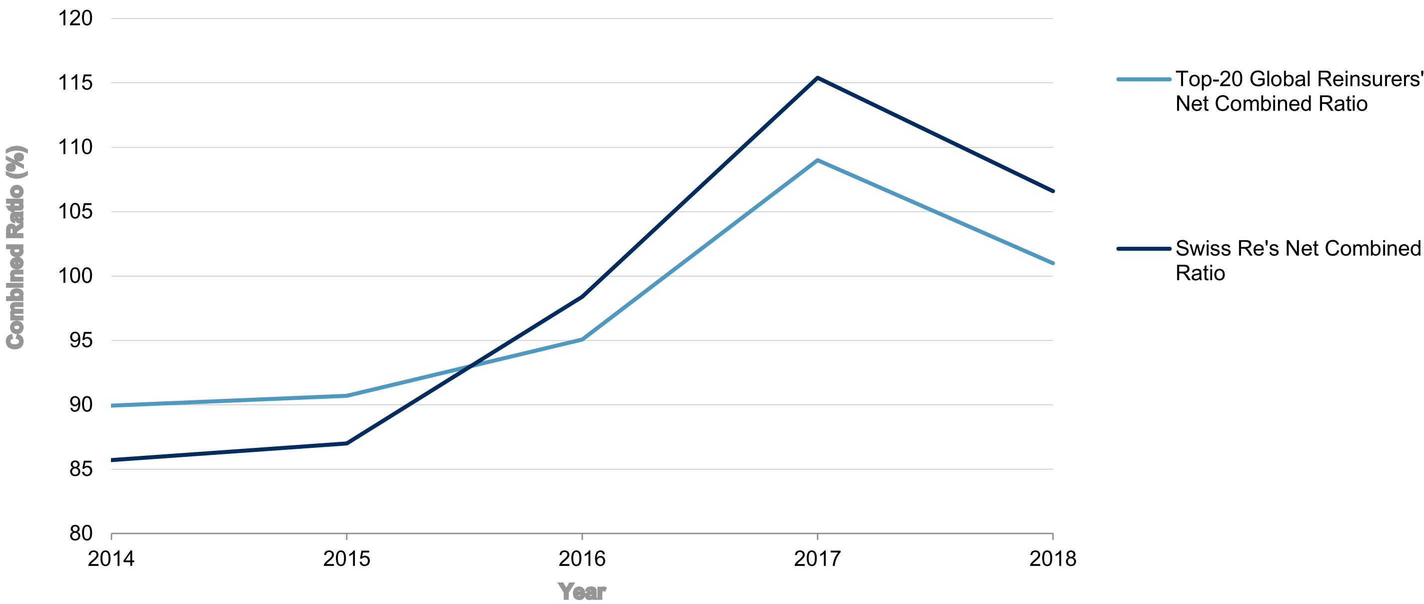
Chart 1

Swiss Re's Net Combined Ratio Compared To That Of Top-20 Global Reinsurers



Source: S&P Global Ratings.

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Other Key Credit Considerations

Governance

Management's communication of its strategic goals is frequent, clear, and consistent. The group's strong risk governance, supported by advanced and detailed financial modelling and reporting tools, provides a strong level of independent oversight. Its well-defined risk appetite translates into a consistent limit framework across all risk categories, approved by the Group Risk and Capital Committee.

Swiss Re has a history of long-tenured senior executives across key business units, with deep bench strength supporting the senior management team. Swiss Re has established a track record of strong execution of groupwide strategic and financial targets. In recognition of CorSo's weak performance, the group has taken various strategic actions as mentioned above. Andreas Berger took over as CEO of CorSo from April 2019.

Liquidity

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 relative to its liabilities.

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Group support

We treat both the reinsurance division and SRCS as core to Swiss Re, and currently consider the Life Capital business unit 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.

SRCS focuses on writing direct non-life insurance for large corporate clients. SRCS has not performed in line with our expectations, though we don't think that this has reduced the group's commitment to this business unit. This commitment is partly supported by capital injections ($600 million in 2019 and $1 billion in 2017).

ReAssure is one of the main operating entities of the Swiss Re Life Capital (SRLC) business unit. Swiss Re still intends to reduce its ownership in ReAssure to de-consolidate this U.K. closed life consolidator. We plan to resolve the CreditWatch on both Swiss Re ReAssure Ltd. and its senior debt once we have formed a view of SRLC's stand-alone creditworthiness and its relative importance to the group, taking into account Swiss Re's commitment to reduce its ownership of ReAssure.

Factors specific to Swiss Re Ltd. the non-operating holding company

Our 'A' rating on Swiss Re Ltd., two notches below the group credit profile (GCP), mostly reflects the structural subordination of its creditors versus the policyholders of its insurance subsidiaries.

Accounting considerations

We base our analysis 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).

Ratings Score Snapshot

Ratings Score Snapshot Of Swiss Re And Close Peers

	Swiss Re	**Munich Re**	**Hannover Re**	**SCOR**
Business Risk Profile	Very Strong	Very Strong	Very Strong	Very Strong
Competitive position	Excellent	Excellent	Very strong	Very strong
IICRA	Intermediate risk	Intermediate risk	Intermediate risk	Low risk
Financial Risk Profile	Very Strong	Strong	Strong	Strong
Capital and earnings	Excellent	Very Strong	Very Strong	Very strong
Risk exposure	Moderately high	Moderately High	Moderately High	Moderately high
Funding structure	Neutral	Neutral	Neutral	Neutral

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Ratings Score Snapshot Of Swiss Re And Close Peers (cont.)				
Anchor*	aa-	aa-	aa-	aa-
Modifiers				
Governance	Neutral	Neutral	Neutral	Neutral
Liquidity	Exceptional	Exceptional	Exceptional	Exceptional
Comparable ratings analysis	0	0	0	0
Financial Strength Rating	AA-	AA-	AA-	AA-
	*Selection of the 'aa-' anchor is influenced by our view of Swiss Re's ongoing competitive pressure in its non-life business, which makes it difficult for Swiss Re to outperform its peers and generate sustainable profitability. IICRA--Insurance industry and country risk assessment.	*This is influenced by our view of Munich Re's leading position in the global reinsurance market, with superior business and earnings diversification across geographies and products compared with its 'A+' rated peers.	*This is influenced by our view of Hannover Re being among the market leaders in the global reinsurance sector, with a very strong franchise and sound diversification by line of business and regions compared with its A+ rated peers. Additionally, the group has been able to outperform most of its peers in challenging market conditions in 2017 and 2018.	*This is influenced by our view of the group's top five position in the global reinsurance sector, with a very strong franchise and sound diversification by lines of business and regions.

Related Criteria

- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- 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
- 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
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- More Consolidation To Come For Global Reinsurers, Aug. 13, 2019
- Swiss Re Core Subsidiaries Affirmed At 'AA-', Swiss Re Africa Raised To 'AA-' Under Revised Criteria; Outlook Stable, July 25, 2019

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- Swiss Re ReAssure Ltd. Ratings Remain On CreditWatch Negative Following Suspension Of IPO, July 15, 2019
- Global Reinsurers Aim To Rebalance Their Natural Catastrophe Exposure, Aug. 7, 2019

Ratings Detail (As Of August 27, 2019)*	
Holding Company: Swiss Re Ltd.	
Issuer Credit Rating	A/Stable/--
Senior Unsecured	A
Short-Term Debt	A-1
Subordinated	BBB+
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-
Related Entities	
First Specialty Insurance Corp.	
Financial Strength Rating	
Local Currency	AA-/Stable/--
Issuer Credit Rating	
Local Currency	AA-/Stable/--
North American Capacity Insurance Co.	
Financial Strength Rating	
Local Currency	AA-/Stable/--
Issuer Credit Rating	
Local Currency	AA-/Stable/--
North American Elite Insurance Co.	
Financial Strength Rating	
Local Currency	AA-/Stable/--
Issuer Credit Rating	
Local Currency	AA-/Stable/--
North American Specialty Insurance Co.	
Financial Strength Rating	
Local Currency	AA-/Stable/--
Issuer Credit Rating	
Local Currency	AA-/Stable/--
Swiss Re Africa Ltd.	
Financial Strength Rating	
Local Currency	AA-/Stable/--

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Ratings Detail (As Of August 27, 2019)*(cont.)	
Swiss Re America Holding Corp.	
Issuer Credit Rating	
Local Currency	A/Stable/A-1
Senior Unsecured	A
Swiss Re Asia Pte. Ltd.	
Financial Strength Rating	
Local Currency	AA-/Stable/--
Issuer Credit Rating	
Local Currency	AA-/Stable/A-1+
Swiss Re Corporate Solutions Insurance China Ltd.	
Financial Strength Rating	
Local Currency	A+/Stable/--
Issuer Credit Rating	
Local Currency	A+/Stable/--
Swiss Re Corporate Solutions Ltd.	
Financial Strength Rating	
Local Currency	AA-/Stable/--
Issuer Credit Rating	
Foreign Currency	AA-/Stable/--
Local Currency	AA-/Stable/A-1+
Subordinated	A
Swiss Re Corporate Solutions Mexico Seguros S.A. de C.V.	
Financial Strength Rating	
CaVal (Mexico) National Scale	mxAAA/Stable/--
Issuer Credit Rating	
CaVal (Mexico) National Scale	mxAAA/Stable/--
Swiss Re Europe Holdings S.A.	
Issuer Credit Rating	
Local Currency	--/--/A-1
Swiss Re Europe S.A.	
Financial Strength Rating	
Local Currency	AA-/Stable/--
Issuer Credit Rating	
Local Currency	AA-/Stable/--
Swiss Re Financial Products Corp.	
Issuer Credit Rating	
Local Currency	AA-/Stable/A-1+
Swiss Reinsurance America Corp.	
Financial Strength Rating	
Local Currency	AA-/Stable/--
Issuer Credit Rating	
Local Currency	AA-/Stable/--

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Ratings Detail (As Of August 27, 2019)*(cont.)	
Swiss Reinsurance Co. (Australian Branch)	
Financial Strength Rating	
Local Currency	AA-/Stable/--
Swiss Re International SE	
Financial Strength Rating	
Local Currency	AA-/Stable/--
Issuer Credit Rating	AA-/Stable/--
Swiss Re Life & Health America Holding Co.	
Issuer Credit Rating	
Local Currency	A/Stable/--
Swiss Re Life & Health America Inc.	
Financial Strength Rating	
Local Currency	AA-/Stable/--
Issuer Credit Rating	
Local Currency	AA-/Stable/--
Swiss Re Life & Health Australia Ltd.	
Financial Strength Rating	
Local Currency	AA-/Stable/--
Issuer Credit Rating	
Local Currency	AA-/Stable/--
Swiss Re Reassure Ltd.	
Issuer Credit Rating	A-/Watch Neg/--
Senior Unsecured	A-/Watch Dev
Westport Insurance Corp.	
Financial Strength Rating	
Local Currency	AA-/Stable/--
Issuer Credit Rating	
Local Currency	AA-/Stable/--
Domicile	Switzerland

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