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**Research Update:**

## PartnerRe Ltd. And Subs Ratings Affirmed After ERM Revision To Strong; Outlook Stable

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## Research Update:

# PartnerRe Ltd. And Subs Ratings Affirmed After ERM Revision To Strong; Outlook Stable

## Overview

- We have revised upward our assessment of PartnerRe Ltd.'s enterprise risk management (ERM) to strong from adequate with strong risk controls.
- We are affirming all of our ratings on PartnerRe Ltd. and its operating subsidiaries.
- The stable outlook reflects our view that PRE will maintain its very strong competitive position and extremely strong capitalization redundant at the 'AAA' level.

## Rating Action

On March 24, 2017, S&P Global Ratings affirmed its 'A-' long-term counterparty credit and senior debt ratings on Bermuda-based PartnerRe Ltd., and its 'A+' long-term counterparty credit and financial strength ratings on PartnerRe Ltd.'s core operating subsidiaries (collectively, PRE). The outlook is stable.

## Rationale

We have revised upward our assessment of PRE's ERM to strong from adequate with strong risk controls. Our assessment is supported by positive scores for risk culture, risk controls, risk models, and strategic risk management, as well as a neutral score for emerging risk management. Following the acquisition by EXOR NV (MTA: EXO IM), PRE's risk appetite, as defined by formal risk limits, has not changed. PRE has effectively used its strategic risk management to pursue business growth--whether organically or through mergers and acquisitions--enter new markets, and keep its portfolio of risks within the confines of its risk appetite. PRE has used its ERM program to control and mitigate its earnings and capital volatility and guide the business in a risk-conscious way. As the business continues to grow in size and complexity, we would expect to see continued improvements in PRE's ERM framework.

PRE has executed the transition from a public to a private ownership well, with no material loss of business or underwriters. PRE's competitive position remains very strong. PRE has a strong brand name and reputation in the reinsurance sector and enjoys strong geographic diversification. PRE's gross premiums written (GPW) fell 3.4% in 2016 to \$5.36 billion, compared with \$5.55 billion in 2015. The decline in the top line was largely driven by market pressures on property casualty (P/C) reinsurance pricing, leading to cancellations and non-renewals of business and higher premiums ceded under

retrocessional contracts in the catastrophe line of business. We expect PRE's GPW growth to be flat to up 3% in 2017-2018, with some growth from life reinsurance, primarily because of the acquisition of Canada-based life reinsurer Aurigen Capital Ltd. Life reinsurance continues to be profitable with return on equity just above 10% and increased diversification benefits.

The company generated strong underwriting results during the past few years despite market headwinds, with a five-year (2012-2016) average combined ratio of 91.3%. The combined ratio deteriorated slightly to 97.2% in 2016 from 95.3% in the prior year. The difference was mainly due to a weak second-quarter 2016, which saw heightened catastrophe losses, lower favorable reserve releases (17.6 percentage point positive effect on the loss ratio in 2016 relative to 20.5 points in 2015), and higher acquisition costs, partially offset by the lower corporate expense ratio. The 2016 and 2015 combined ratios included 3.6 and 9.7 percentage points, respectively, due to corporate expenses driven by severance costs in 2016 and the AXIS break-up fee in 2015. However, PRE will pursue expense reduction initiatives during the next two years. Assuming a catastrophe load of five percentage points in the loss ratio, we expect PRE's combined ratio to be 93%-96% and its return on revenue to be in the mid-teens in 2017-2018.

PRE has extremely strong capital adequacy that we expect to remain redundant at the 'AAA' level through 2018, including upstreaming dividends to EXOR. This capital strength provides a cushion to the severity exposure on the underwriting side. Furthermore, EXOR and PRE have declared that they would like to grow PRE's capital through retained earnings and ultimately become one of the top five reinsurers in the world based on capital during the next few years. In addition, we expect PRE's financial leverage to remain between 20% and 25% and fixed-charge coverage of at least 5x.

Our ratings on PRE reflect its very strong business risk profile and strong financial risk profile. The ratings are also based on PRE's extremely strong capital and earnings, which are partially offset by its high-risk position arising from its exposure to severity risk such as property catastrophe. Under our criteria, these factors lead to a possible anchor of either 'a+' or 'aa-.' We assigned an 'a+' anchor, which reflects the ongoing competitive pressures battering the global P/C reinsurance sector, and potential earnings volatility from the company's exposure to property catastrophe risk. However, PRE has been reducing its net property catastrophe exposures over the past couple of years, capitalizing on favorable retrocession market pricing.

## **Outlook**

The stable outlook reflects our opinion that PRE will maintain its very strong competitive position and an extremely strong capital redundancy at the 'AAA' level. In addition, we expect PRE's overall strategy, capital adequacy, control over investment decisions, and underwriting discipline to be preserved under EXOR's ownership.

## Downside scenario

We could lower the ratings on PRE if:

- We believe the assumptions considered for delinking the ratings on PRE from those on EXOR no longer apply. For instance, if PRE's board of directors is not independent or does not comply with its fiduciary duties, the Bermuda Monetary Authority's group oversight is not as substantive as assumed, significant changes occur to PRE's underwriting and investment strategies accommodating EXOR's risk appetite, which weaken PRE's financial risk profile;
- PRE suffers significant catastrophe losses outside of its risk tolerances that materially weaken PRE's earnings and capital adequacy relative to peers';
- PRE does not meet our performance expectations, especially if capital adequacy deteriorates as a result.

## Upside scenario

We are unlikely to raise the ratings in the next 24 months because of the ongoing competitive pressures battering the global P/C reinsurance sector and potential earnings volatility arising from PRE's exposure to property catastrophe. However, raising our rating would require PRE to continue generating sustainable and strong earnings in both P/C and life reinsurance while cementing its underwriting and optimizing its portfolio toward higher-margin businesses. Other contributing factors would include PRE's ability to further enhance its competitive position among the top-10 global reinsurers, maintain 'AAA' capital redundancy, and sustainably exceed our operating performance expectations.

## Ratings Score Snapshot

PartnerRe Ltd. and operating companies

	To:	From:
Holding Company Rating	A-/Stable/--	A-/Stable/--
Financial Strength Rating	A+/Stable	A+/Stable
Anchor	a+	a+
Business Risk Profile	Very Strong	Very Strong
IICRA*	Intermediate Risk	Intermediate Risk
Competitive Position	Very Strong	Very Strong
Financial Risk Profile	Strong	Strong
Capital & Earnings	Extremely Strong	Extremely Strong
Risk Position	High Risk	High Risk
Financial Flexibility	Adequate	Adequate
Modifiers	0	0
ERM and Management	0	0
Enterprise Risk Management	Strong	Adequate with SRC**
Management & Governance	Satisfactory	Satisfactory

Holistic Analysis	0	0
Liquidity	Strong	Strong
Support	0	0
Group Support	0	0
Government Support	0	0
*Insurance Industry And Country Risk Assessment		
**Strong Risk Controls		

## Related Criteria

- Criteria - Corporates - Industrials: Methodology: Investment Holding Companies, Dec. 1, 2015
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- Criteria - Insurance - General: Enterprise Risk Management, May 7, 2013
- Criteria - Insurance - General: Insurers: Rating Methodology, May 7, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- 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
- Criteria - Insurance - General: Hybrid Capital Handbook: September 2008 Edition, Sept. 15, 2008

## Related Research

- PartnerRe Ltd. Ratings And Outlook Unaffected By Announced Acquisition Of Canadian Life Reinsurer Aurigen, Oct. 20, 2016
- PartnerRe Ltd. 750 Mil. Euro 10-Year 1.25% Unsecured Notes Rated 'A-', Sept. 8, 2016
- PartnerRe Ltd., Subs Outlooks Revised To Stable From Neg.; Ratings Affirmed, Delinked From EXOR, Sept. 7, 2016
- PartnerRe Ltd. Outlook Revised To Negative From Stable, Ratings Affirmed After EXOR Sale Agreement Announced, Aug. 3, 2015

## Ratings List

Ratings Affirmed

PartnerRe Ltd.

  Issuer Credit Rating

  Local Currency

A-/Stable/--

Partner Reinsurance Asia Pte. Ltd.

Partner Reinsurance Europe SE

Partner Reinsurance Co. of U.S.

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Partner Reinsurance Co. Ltd.  
Issuer Credit Rating  
Local Currency A+/Stable/--

Partner Reinsurance Asia Pte. Ltd.  
Partnerre America Insurance Company  
PartnerRe Ireland Insurance dac  
Partner Reinsurance Europe SE  
Partner Reinsurance Co. of U.S.  
Partner Reinsurance Co. Ltd.  
Financial Strength Rating  
Local Currency A+/Stable/--

PartnerRe Ltd.  
PartnerRe Finance II Inc.  
Preferred Stock BBB

PartnerRe Ltd.  
PartnerRe Finance B LLC  
PartnerRe Ireland Finance Dac  
Senior Unsecured A-

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](http://www.standardandpoors.com) for further information. Complete ratings information is available to subscribers of RatingsDirect at [www.globalcreditportal.com](http://www.globalcreditportal.com) and at [www.spcapitaliq.com](http://www.spcapitaliq.com). All ratings affected by this rating action can be found on the S&P Global Ratings' public website at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column.

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