

Research Update:

# PartnerRe Ltd. Outlook Revised To Stable From Negative On Announced Acquisition By Covea Group; Ratings Affirmed

October 29, 2021

## Overview

- France-based mutual insurance Covea group (AA-/Stable/--) has announced plans to acquire the Bermuda-based reinsurer PartnerRe Ltd. and its subsidiaries (collectively, PartnerRe) from EXOR N.V. (MTA: EXO IM) for \$9 billion.
- Once the deal closes, we will likely view PartnerRe as strategically important to Covea group.
- On Oct. 29, 2021, S&P Global Ratings revised its outlook on PartnerRe to stable from negative because of potential stronger group support from the new, higher-rated parent that can offset ratings pressure on PartnerRe.
- We are affirming all our ratings on PartnerRe and its operating subsidiaries.

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## Rating Action

On Oct. 29, 2021, S&P Global Ratings revised its outlook to stable from negative on PartnerRe Ltd. and its operating companies. We also affirmed our 'A-' long-term issuer credit rating on PartnerRe and our 'A+' long-term insurer financial strength and issuer credit ratings on its core subsidiaries.

## Rationale

**The outlook revision follows EXOR's announced agreement with France-based mutual insurance Covea group for the sale of PartnerRe for \$9 billion in an all-cash transaction.** The acquisition is expected to close in the first half of 2022. This is EXOR and Covea's second attempt at the transaction, with the initial attempt last year terminated due to pandemic-related concerns. Covea tried to renegotiate the terms of the deal in light of the COVID-19 outbreak and resulting global recession, but EXOR decided to retain PartnerRe's ownership at that time. Despite the termination, Covea reached an agreement with EXOR last year to invest €1.5 billion, about half of which was for vehicles to be managed by PartnerRe, thereby helping Covea maintain its

relationship with EXOR-PartnerRe. We believe the acquisition has a better chance of closing this time, considering the revival of the deal on similar terms, barring any regulatory hardships.

Subsequent to the acquisition, PartnerRe would benefit from stronger support as part of a higher-rated group with a strong balance sheet, which can offset potential pressures on PartnerRe's stand-alone credit profile in view of sub-par underwriting performance in recent years. We expect PartnerRe's underwriting initiatives will translate into meaningful improvement in the company's property-casualty underwriting performance, but it will take some time for the outcome to emerge, and execution risks remain.

**The acquisition of PartnerRe is transformative for Covea and markedly changes its business mix.** The newly combined group would benefit from PartnerRe's globally diversified reinsurance platform having a strong franchise and complementing Covea's leading but concentrated position in the French primary nonlife insurance business, thereby enhancing the combined business risk profile. We believe integration risks are lower as Covea plans to manage PartnerRe on a stand-alone basis and there is little expectation of cost synergies due to minimal business overlap between the two groups. On successful execution, we believe that PartnerRe would potentially benefit from the strength of the combined group over the longer term. The above-mentioned considerations and PartnerRe's contribution to the newly formed group support our assessment of the company's strategically important status on close of the transaction, which, along with PartnerRe's stand-alone credit profile, underlies our ratings affirmation with a stable outlook.

## **Outlook**

The stable outlook reflects a high likelihood of the deal closing and of potential group support for PartnerRe under the new parent. We also expect PartnerRe's underwriting initiatives to result in improved operating performance, although execution risks remain.

## **Upside scenario**

We could raise our ratings in the next two years to the level of those on the combined Covea group if, subsequent to acquisition close, we determine PartnerRe to be a core sub-group to the newly combined entity. The core group status will depend on the following considerations:

- Continued execution of PartnerRe's strategic plan, as part of a larger group, leading to sustainable improvement in underwriting performance;
- Successful integration of PartnerRe, with a tangible earnings contribution helping the Covea group to generate strong and stable earnings;
- Covea's ability to intake and adjust to PartnerRe's relatively volatile business profile, including enterprise risk management, highlighting adequate seasoning of the acquisition, and
- Covea's long-term commitment to support PartnerRe similar to its other core businesses.

## **Downside scenario**

A downgrade is unlikely, in view of the assumed group support; however, we could lower our ratings on PartnerRe in the next 12 months if the acquisition doesn't close and:

- PartnerRe's underwriting performance does not meet our expectations;

- Its capital adequacy is below 'AAA' level redundancy and is unlikely to recover; or
- We believe the assumptions we considered for delinking the ratings on PartnerRe from those on its parent company, EXOR, no longer apply. This could happen, for instance, if PartnerRe'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, or significant changes occur to PartnerRe's underwriting and investment strategies accommodating EXOR's risk appetite, which weakens PartnerRe's financial risk profile.

## Ratings Score Snapshot

### PartnerRe Ltd. -- Ratings Score Snapshot

	To	From
<b>Business Risk Profile</b>	<b>Very Strong</b>	<b>Very Strong</b>
Competitive position	Very Strong	Very Strong
IICRA	Intermediate	Intermediate
<b>Financial Risk Profile</b>	<b>Strong</b>	<b>Strong</b>
Capital and earnings	Excellent	Excellent
Risk exposure	High	High
Funding structure	Neutral	Neutral
Anchor*	a+	a+
<b>Modifiers</b>		
Governance	Neutral	Neutral
Liquidity	Adequate	Adequate
Comparable ratings analysis	0	0
<b>Financial Strength Rating</b>	<b>A+/Stable</b>	<b>A+/Negative</b>

IICRA--Insurance industry country risk assessment. \*This is influenced by our relative view of PartnerRe's competitive position and its recent underperformance.

## Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Guarantee Criteria, Oct. 21, 2016
- Criteria | Corporates | Industrials: Methodology: Investment Holding Companies, Dec. 1, 2015
- Criteria | Insurance | Property/Casualty: Assessing Property/Casualty Insurers' Loss Reserves, Nov. 26, 2013

- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011
- Criteria | Insurance | General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010

## Related Research

- Covea Group Core And Guaranteed Subsidiaries 'AA-' Ratings Affirmed On Plan To Acquire PartnerRe; Outlook Remains Stable, Oct. 29, 2021
- PartnerRe Ltd., April 1, 2021
- PartnerRe Ltd. Outlook Revised To Negative From Stable On Continued Underwriting Shortfalls; 'A+' Ratings Affirmed, Aug. 7, 2020
- PartnerRe Ltd. Outlook Revised To Stable From Positive Following Termination Of Acquisition By Covea; Ratings Affirmed, May 15, 2020

## Ratings List

### Ratings Affirmed

#### PartnerRe Ltd.

Preferred Stock	BBB
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#### PartnerRe Finance B LLC

Senior Unsecured	A-
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Junior Subordinated	BBB
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#### PartnerRe Finance II Inc.

Preferred Stock	BBB
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#### PartnerRe Ireland Finance Dac

Senior Unsecured	A-
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### Ratings Affirmed; Outlook Action

	To	From
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#### PartnerRe Ltd.

Issuer Credit Rating		
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Local Currency	A-/Stable/--	A-/Negative/--
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#### Partner Reinsurance Asia Pte. Ltd.

#### Partner Reinsurance Europe SE

#### Partner Reinsurance Co. of U.S.

#### Partner Reinsurance Co. Ltd.

Issuer Credit Rating		
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Local Currency	A+/Stable/--	A+/Negative/--
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**Partner Reinsurance Asia Pte. Ltd.**

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**Partnerre America Insurance Co.**

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**PartnerRe Life Reinsurance Co. of Canada**

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**PartnerRe Life Reinsurance Co. of America**

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**PartnerRe Ireland Insurance dac**

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**Partner Reinsurance Europe SE**

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**Partner Reinsurance Co. of U.S.**

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**Partner Reinsurance Co. Ltd.**

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Financial Strength Rating

Local Currency                      A+/Stable/--    A+/Negative/--

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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.capitaliq.com](http://www.capitaliq.com). All ratings affected by this rating action can be found on 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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