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### Research Update:

## Swiss Reinsurance Co. Ltd. And Core Subs Upgraded To 'AA-' On Very Strong Competitive Position; Outlook Stable

#### Primary Credit Analyst:

Dennis Sugrue, London (44) 20-7176-7056;dennis\_sugrue@standardandpoors.com

#### Secondary Contact:

Mark Coleman, London (44) 20-7176-7006;mark\_coleman@standardandpoors.com

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## Overview

- Since our last full review, we believe that Swiss Re has successfully derisked its asset portfolio, repaid the convertible perpetual capital instrument (CPCI) with Berkshire Hathaway, maintained its significantly redundant 'AAA' capital position, and stabilized its net income.
- We are therefore raising the ratings on Swiss Re and its core subsidiaries to 'AA-' from 'A+'.
- We expect the rated entities under the two new business units, Corporate Solutions and Admin Re, to maintain their current core status once the group restructuring is complete.
- The stable outlook reflects our expectation that Swiss Re will maintain its very strong competitive position in the life and non-life reinsurance and insurance-linked securities markets.

## Rating Action

On Oct. 28, 2011, Standard & Poor's Ratings Services raised its long-term counterparty credit and insurer financial strength ratings on Zurich-based reinsurer Swiss Reinsurance Co. Ltd., and its core subsidiaries (collectively Swiss Re, or the group) to 'AA-' from 'A+'. The outlook on all of these entities is stable.

## Rationale

The upgrade to 'AA-' reflects our view that Swiss Re has met our expectations for an upgrade since our last full review, namely by improving its financial profile, repaying the convertible perpetual capital instrument (CPCI) with Berkshire Hathaway, and continuing to generate strong operating performance characterized by strong underlying performance and improved net income.

The ratings on Swiss Re reflect the group's very strong competitive position, very strong capitalization, and very strong non-life operating performance. They are constrained by our view that Swiss Re has yet to fully restore its financial flexibility and that the group's life operating performance has exhibited some volatility and has not contributed to group profitability on the same scale as the non-life segment.

In our opinion, the legacy portfolio has been successfully reduced such that the net notional exposure is considered manageable. Swiss Re reduced this

exposure by over 80% during 2010 and first-quarter 2011 to below \$4 billion. The group has maintained capital adequacy significantly redundant to the 'AAA' confidence level despite repaying the CPCI at year-end 2010, large catastrophe losses in the first half of 2011, and widening credit spreads and equity market volatility in 2011. Swiss Re has reduced its exposure to market risk substantially by taking a more duration-matched position and keeping its equity exposure at low levels relative to other asset classes. At the same time, it has maintained very strong liquidity and high levels of cash.

We expect net income in 2011 to be strong and stable. At least \$2.6 billion in catastrophe losses will impede 2011 net income, although about \$800 million in reserve releases could partially boost this figure. Underlying operating metrics are very strong on the non-life side, but somewhat less so on the life reinsurance side in 2010 and thus far in 2011. We expect the non-life reinsurance combined ratio for 2011 to be significantly below our expectation for the reinsurance market of 105%-110%. The combined ratio, excluding catastrophe losses and reserve releases, and return on equity (ROE) for the group through the first half of the year were 92.4% and 11%, respectively.

We believe the group continues to maintain its very strong competitive position in the market. Swiss Re continues to be a market leader in the life reinsurance and insurance-linked securities (ILS) markets, and has maintained prudent cycle management in the non-life lines, achieving more favorable pricing at recent renewals than the market. In our view, Swiss Re's substantial excess capital position, relative to our ratings, coupled with its position as a market leader, is a marked competitive advantage to the group during a period of high financial stress. We believe this allows Swiss Re to exploit any opportunities it might see across all markets. In our view, this capital position and diversity of product offering are important cycle management tools that are shared by few peers in the market at the moment.

We consider Swiss Re's financial flexibility as strong, but view it as a relative credit weakness. We believe investors may have some lingering concerns as the group's price-to-book ratio of 0.7x is below the reinsurance peer group at 0.9x. We see limited need for external capital; however, Swiss Re is more credit-sensitive than peers because its business model relies on its active use of the capital markets for financing, to hedge risk, and for business reasons.

We view the rated entities under the two new business units, Corporate Solutions and Admin Re, created as part of the previously announced corporate restructuring, as "core" to the group rating under our group methodology criteria (see "Group Methodology," published April 22, 2009). Our view is supported by each of these units, on their own standing, being a material and integral part of the group's existing and future operations. In addition, they share the Swiss Re brand, are heavily integrated into the group management and operational structure, contribute a material and beneficial portion of group earnings and capital, and provide a solid platform for growth and diversification for the group.

## Outlook

We expect Swiss Re to maintain its very strong competitive position in the life and non-life reinsurance and ILS markets. We expect the group to maintain prudent cycle management in the current soft rating environment in the non-life space and to react quickly to exploit any material improvement in pricing. We believe the Corporate Solutions direct non-life insurance segment will be a more prominent contributor to group earnings and premium over the next few years.

Lower reinvestment yields and non-life underwriting margins are likely to strain operating profits over the rating horizon, in our view. That said, we expect non-life operating performance to remain very strong, with strong and stable net income, and a combined ratio significantly below our expectation of 105%-110% for the reinsurance market. Return on revenue (ROR) and ROE should be in the high single digits for the full-year 2011, and we would expect to see net income stabilize above \$2.0 billion from 2012 and ROR and ROE to be above 12% and 10%, respectively, over the same period. We expect life operating margins to remain lower in 2011, but for ROR to be at 5% or above. We expect to see more stability in the life segment (including Admin Re) EVM (economic value management) income, new business to contribute \$350 million per year, and for no major negative developments on previous years' business.

We expect the group's capitalization to be resilient to asset-driven volatility without falling below the 'AA' level. We do not expect material changes to the asset allocation strategy over the rating horizon.

Positive rating action over the next 12-24 months is unlikely in our view. This is due to our view of increasing industry risk, including a challenging pricing environment in non-life lines, a low interest rate environment, and an inability to convert very strong competitive position to what we consider to be very strong operating performance. Negative rating action is also unlikely over the same time horizon. However, the ratings on Swiss Re could come under pressure if there were a material shift in the asset allocation, effectively "re-risking" to levels seen before the financial crisis, or if the group were hit by large losses that were outside its risk tolerance, thus impeding earnings and bringing its risk framework into question.

## Related Criteria And Research

- Principles Of Credit Ratings, Feb. 16, 2011
- Interactive Ratings Methodology, April 22, 2009
- Counterparty Credit Ratings And The Credit Framework, April 14, 2004
- Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010
- Criteria - Financial Institutions - General: Group Methodology, April 22, 2009

- Holding Company Analysis, June 11, 2009
- Hybrid Capital Handbook: September 2008 Edition, Sept. 15, 2008

## Ratings List

Upgraded; CreditWatch/Outlook Action

	To	From
Swiss Reinsurance Co. Ltd. Counterparty Credit Rating	AA-/Stable/A-1+	A+/Positive/A-1

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.		
Reassure America Life Insurance Co.		
North American Specialty Insurance Co.		
North American Elite Insurance Co.		
North American Capacity Insurance Co.		
European Reinsurance Co. of Zurich		
Algemene Levensherverzekering Maatschappij N.V.		
Financial Strength Rating		
Local Currency	AA-/Stable/--	A+/Positive/--

Algemene Levensherverzekering Maatschappij N.V.		
Westport Insurance Corp.		
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.		
Reassure America Life Insurance Co.		
North American Specialty Insurance Co.		
North American Elite Insurance Co.		
North American Capacity Insurance Co.		
Counterparty Credit Rating		
Local Currency	AA-/Stable/--	A+/Positive/--

European Reinsurance Co. of Zurich		
Swiss Re Financial Products Corp.		
Counterparty Credit Rating		
Local Currency	AA-/Stable/A-1+	A+/Positive/A-1

Swiss Re Life & Health America Holding Co.		
Swiss Re Solutions Holding Corp.		
Counterparty Credit Rating		
Local Currency	A/Stable/--	A-/Positive/--

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Upgraded; CreditWatch/Outlook Action; Ratings Affirmed

	To	From
Swiss Re America Holding Corp. Counterparty Credit Rating Local Currency	A/Stable/A-1	A-/Positive/A-1

Ratings Affirmed

Swiss Re Europe Holdings S.A. Swiss Re GB PLC Counterparty Credit Rating Local Currency	--/--/A-1	
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Upgraded

	To	From
Swiss Reinsurance Co. Ltd. Financial Enhancement Rating Local Currency	AA-/---/--	A+/---/--
Swiss Reinsurance Co. Ltd. Senior Unsecured	AA-	A+
Junior Subordinated	A	A-
Life Re Capital Trust II Preferred Stock*	BBB+	BBB
Pearl Holding Ltd. Senior Secured**	AA-	A+
Swiss Re America Holding Corp. Senior Unsecured**	AA-	A+
Junior Subordinated**	A	A-
Swiss Re Capital I L.P. Junior Subordinated**	A	A-
Swiss Re Finance Luxembourg S.A Senior Unsecured**	AA-	A+
Swiss Re Solutions Holding Corp. Senior Unsecured	A	A-
Swiss Re Treasury (US) Corp. Senior Unsecured**	AA-	A+

\*Guaranteed by Swiss Re Life & Health America Holding Co.

\*\*Guaranteed by Swiss Reinsurance Co. Ltd.

NB--This list does not include all ratings affected.

**Additional Contact:**

Insurance Ratings Europe;InsuranceInteractive\_Europe@standardandpoors.com

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