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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	Weaknesses
• Extremely strong franchise, being one of the largest two reinsurers globally. • Diversified product suite across non-life and life reinsurance, together with 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.	• 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' financial strength ratings on 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 almost all 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 third quarter (Q3) U.S. hurricane season losses.

In 2016, 63% of SRL's net premiums earned (NPE) were from the non-life business, and 37% from life and health (L&H). The group also has a presence in many significant markets, with 45% of its NPE generated from Americas; 33%

from Europe, the Middle East, and Africa (EMEA); and 22% from Asia-Pacific. Since 2012, the group has operated through three main business segments: Reinsurance, Swiss Re Corporate Solutions (SRCS), and Swiss Re Life Capital (formerly known as Admin Re). Similarly, for Q3 2017 year-to-date SRL posted gross premiums written for non-life at 62%, and 38% for L&H.

Outlook: Stable

The stable outlook on SRL reflects S&P Global Ratings' expectation that the group will maintain its market leading 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 Swiss Re to maintain capital adequacy 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.

We also expect to see SRL's non-life operating performance remaining above peers, and continued steady results in the L&H segment following management's corrective actions.

Downside scenario

We view a downgrade as unlikely. However, we could take this action if a combination of events severely eroded the group's capital base (that is, to bring it below the 'AA' threshold)--for example, groupwide material underperformance, together with, for instance, a material loss from an extreme event. While the Q3 hurricane losses have moderately weakened SRL's capital position, we do not consider these losses sufficiently material, based on its current loss estimates, to trigger a negative rating action at this time.

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 the Swiss Re group (Swiss Re) to significantly outperform its peers, as well as sustainable profitability in the U.S. L&H book.

Macroeconomic Assumptions

Table 1

Economic Forecast Summary -- OECD

	2013	2014	2015	2016	2017F	2018F	2019F	2020F
Key Indicators								
GDP (Real, YOY%)	1.5	2.1	2.5	1.8	2.4	2.3	2.0	1.8
CPI (Avg, YOY%)	1.5	1.6	0.5	0.9	2.0	2.0	2.0	2.1

Table 1

Economic Forecast Summary -- OECD (cont.)								
	2013	**2014**	**2015**	**2016**	**2017F**	**2018F**	**2019F**	**2020F**
Unemployment (%)	8.0	7.5	6.9	6.5	5.9	5.6	5.5	5.4

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 will abate in 2018 following the U.S. hurricane losses with average rate increases of 0%-5% expected through 2018, reflecting the January, one-year-results.
- Premium growth of about 5% on a groupwide basis in 2018-2019, driven largely by more favorable pricing conditions than witnessed in 2017. We expect stronger growth for SRL to occur in property/casualty (P/C) reinsurance than in L&H reinsurance.

Table 2

Swiss Re Ltd. -- Key Metrics									
				--Year ended Dec. 31--					
	2019F	**2018F**	**2017F**	**2016**	**2015**	**2014**	**2013**	**2012**	**2011**
Gross premiums written (mil. $)	>35,000	>35,000	>35,000	35,622	32,249	33,276	32,934	31,723	28,664
Net income*	>3,500	>3,500	>3,500	3,623	4,668	3,569	4,513	4,398	2,798
Fixed-charge coverage (x)*	>6x	>6x	>6x	6.6	8.4	7.4	7.3	8.6	4.0
Financial leverage (%)	<20.0	<20.0	<20.0	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
P/C: Net combined ratio (%)*	95-99	95-99	95-99	94.8	87.0	85.4	85.7	83.0	101.3
P/C: Net expense ratio (%)	N/A	N/A	N/A	33.6	33.7	30.0	30.4	30.0	28.4
P/C: Net loss ratio (%)	N/A	N/A	N/A	61.3	53.3	55.4	55.3	53.0	72.9
Common equity (mil. $)	N/A	N/A	N/A	35,634	33,517	35,930	32,952	34,002	29,590
Reinsurance utilization (%)	N/A	N/A	N/A	5.8	5.6	4.9	7.5	20.1	20.2
Return on revenue (%)	N/A	N/A	N/A	9.3	13.8	11.9	14.0	14.7	6.1
Net investment yield (%) excluding unit-linked and with-profits	N/A	N/A	N/A	2.9	2.8	3.2	2.9	3.1	3.1

*On a normalized basis for 2017. F--forecast. N/A--Not applicable. Source: S&P Global Ratings.

Business Risk Profile: Very Strong

SRL is naturally exposed to product risk within P/C reinsurance, particularly because of the unpredictable nature of catastrophes. A significant proportion of Swiss Re's product offering is exposed to natural catastrophe risk, as reflected in its Q3 2017 results. 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.

Swiss Re is, and will likely remain, one of the two largest reinsurers globally--along with Munich Re--and is nearly double the size of the third largest reinsurer (by premiums). 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 differentiated (that is, better) terms than available in the wider market.

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

Nevertheless, the U.S. is a key marketplace--SRL derived 45% of group net premium earned and fee income from the Americas in 2016; EMEA accounted for 33% and Asia-Pacific for 22%. SRL is targeting further expansion in high growth markets by 2020 (to 30% of premiums/fee income by 2020).

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. While the reinsurer deployed additional capital to support underwriting and investment risks in recent years and suffered material catastrophe losses in 2017, we expect that the group will preserve its 'AAA' capital adequacy through 2019. Equally, we expect Swiss Re Group will maintain its regulatory solvency level above 220% on a Swiss Solvency Test basis (1/2017: 262%), even after the 2017 catastrophe losses.

Groupwide, we expect Swiss Re to generate return on equity of 8%-10% in 2018-2019, assuming normalized catastrophe losses. These returns are based on our expectation that net income will recover to around $3.5 billion through 2018-2019, after a likely barely breakeven result in 2017. Swiss Re reported a P/C reinsurance combined (loss and expense) ratio at Q3 2017 of 114.1%, very similar to the Bermudian peer group average of 114.4%.

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-2016, Swiss Re's financial leverage and fixed charge coverage metrics were 16.8% and 6.6x, respectively. We expect the reinsurer to maintain leverage/coverage of less than 20% and more than 6x (although 2017 coverage will clearly be hit by the heavy catastrophe burden). Whilst 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 enterprise content management (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.

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 $116 billion of invested assets as of year-end 2016.

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

Table 3

Swiss Re Ltd. -- Rating Score Snapshot (cont.)	
Financial Strength Rating	**AA-/Stable**
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, with Life Capital considered highly strategic.

The reinsurance business unit constitutes the group's principal operation and has been the foundation of the group's 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, with Swiss Re Corporate Solutions China assessed 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 2016, 6% of group shareholders' equity and 4% of group net income. Following significant catastrophe losses (of approximately $1 billion) in SRCS during the first nine months of 2017, Swiss Re has injected $1 billion of capital into SRCS.

The third leg in the Swiss Re business model is its Life Capital unit which covers closed-block life reinsurance business, via ReAssure Ltd. Two small open-book primary life insurers, elipsLife and iptiQ are also included within Swiss Re Life Capital. The group aims to generate (and requires) cost efficiencies through its existing systems, scale, and experience in the closed-block area. We consider Swiss Re Life Capital to be highly strategically important to the group, and the rated non-operating holding company (Swiss Re ReAssure Ltd.) is rated one notch below the core non-operating holding company operations of SRL. We do not consider that the recently announced 13.2% ownership stake in ReAssure acquired by MS&AD affects the group status.

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

Related Research

- Reinsurance Pricing Was Up At The January Renewals, But Will The Momentum Continue Or Fizzle Out?, Jan 23, 2018
- Third-Quarter 2017 Catastrophe Losses Are Becoming A Capital Event For Global Reinsurers, Oct. 13, 2017
- Swiss Reinsurance Co. Ltd. 'AA-' Rating Affirmed; Outlook Stable, Nov. 24, 2017
- Clouds On The Horizon: Global P/C Reinsurers Search For Cover From Market Turbulence, Sept. 5, 2017

Ratings Detail (As Of February 5, 2018)	
Operating Companies Covered By This Report	
Swiss Reinsurance Co. Ltd.	
Financial Strength Rating	
Local Currency	AA-/Stable/--
Counterparty Credit Rating	AA-/Stable/A-1+
Financial Enhancement Rating	
Local Currency	AA-/--/--
Junior Subordinated	A
Senior Unsecured	AA-

Ratings Detail (As Of February 5, 2018) (cont.)	
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 Asia Ltd.	
Financial Strength Rating	
Local Currency	AA-/Stable/--
Issuer Credit Rating	
Local Currency	AA-/Stable/A-1+
Swiss Re Corporate Solutions Ltd.	
Financial Strength Rating	
Local Currency	AA-/Stable/--
Issuer Credit Rating	
Local Currency	AA-/Stable/A-1+
Subordinated	A
Swiss Re Europe S.A.	
Financial Strength Rating	
Local Currency	AA-/Stable/--
Issuer Credit Rating	
Local Currency	AA-/Stable/--
Swiss Reinsurance America Corp.	
Financial Strength Rating	
Local Currency	AA-/Stable/--
Issuer Credit Rating	
Local Currency	AA-/Stable/--
Swiss Reinsurance Co. (Australian Branch)	
Financial Strength Rating	
Local Currency	AA-/Stable/--

Ratings Detail (As Of February 5, 2018) (cont.)	
Swiss Re International SE	
Financial Strength Rating	
Local Currency	AA-/Stable/--
Issuer Credit Rating	AA-/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/--
Westport Insurance Corp.	
Financial Strength Rating	
Local Currency	AA-/Stable/--
Issuer Credit Rating	
Local Currency	AA-/Stable/--
Related Entities	
Swiss Re America Holding Corp.	
Issuer Credit Rating	
Local Currency	A/Stable/A-1
Senior Unsecured	A
Swiss Re Corporate Solutions Insurance China Ltd.	
Financial Strength Rating	
Local Currency	A+/Stable/--
Issuer Credit Rating	
Local Currency	A+/Stable/--
Swiss Re Europe Holdings S.A.	
Issuer Credit Rating	
Local Currency	--/--/A-1
Swiss Re Life & Health America Holding Co.	
Issuer Credit Rating	
Local Currency	A/Stable/--
Swiss Re Ltd.	
Issuer Credit Rating	A/Stable/--
Senior Unsecured	A
Short-Term Debt	A-1
Subordinated	BBB+
Swiss Re Reassure Ltd.	
Issuer Credit Rating	A-/Stable/--
Senior Unsecured	A-
Domicile	Switzerland

Ratings Detail (As Of February 5, 2018) (cont.)

*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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