

RATING ACTION COMMENTARY

Fitch Affirms SI Re at IFS 'A-', Outlook Stable

Thu 17 Aug, 2023 - 7:55 AM ET

Fitch Ratings - Frankfurt am Main - 17 Aug 2023: Fitch Ratings has affirmed Swiss reinsurer SIGNAL IDUNA Rueckversicherungs AG's (SI Re) Insurer Financial Strength (IFS) Rating at 'A-' (Strong). The Outlook is Stable.

The rating reflects SI Re's ultimate ownership by SIGNAL IDUNA Lebensversicherung a. G. insurance group (SIL), as captured in the one-notch uplift from SI Re's standalone credit quality. SI Re's standalone credit quality reflects very strong capitalisation, a good company profile, strong reserve adequacy and good financial performance.

KEY RATING DRIVERS

'Very Important' Subsidiary: Fitch views SI Re as 'Very Important' to SIL under the agency's insurance group rating methodology. SI Re is 100% owned by SIL's non-life insurance subsidiary, SIGNAL IDUNA Allgemeine Versicherung Aktiengesellschaft (SI AV; IFS: A/Stable). The various benefits of SIL's ownership include risk-management expertise, strong relationships with European mutual insurers, and capital support. SI Re adds to SIL's diversification in business lines and geography. This is underlined by the one-notch uplift of SI Re's standalone credit quality due to group support.

Very Strong Capitalisation: Our assessment of capitalisation is based on SI Re's 'Extremely Strong' score in Fitch's Prism Factor-Based Capital Model (Prism FBM) at end-2022 (2021: 'Extremely Strong') and its very strong Swiss Solvency Test (SST) ratio of 238% on 1 January 2023 (2022: 223%). The company has received several capital injections from its parent over the years, including a EUR25 million capital injection in 2022 to support its growth, and we expect the parent to continue supporting SI Re if needed.

Good Company Profile: We view SI Re's company profile as good, reflecting its strong market position in its chosen market segment and moderate risk profile. However, we believe SI Re's small size, with gross written premiums of EUR194 million in 2022 (2021: EUR183 million), constrains its competitive positioning.

Good Financial Performance: SI Re's Fitch-calculated net combined ratio was stable at 101% in 2022, in line with the company's average combined ratio of 101% in 2018-2022. SI Re was able to maintain its strong underwriting profitability, despite high natural catastrophe activity in Europe in 2021 and 2022, mainly due to disciplined underwriting and good retrocession coverage. For 2023 and 2024, we expect SI Re to maintain its good financial performance with a net combined ratio of about 100%.

Strong Reserve Adequacy: SI Re follows a prudent reserving approach, as demonstrated by strong loss-reserve development. Reserve development earnings as a proportion of the prior year's loss reserve was 6% for 2018-2022. Reserve redundancies averaging 10% of the claims reserve over 2018-2022 are also positive for the rating.

RATING SENSITIVITIES

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

- SI Re becoming 'Core' to SIL, with a significant increase in its absolute size while maintaining profitability
- An upgrade of SIAV's rating

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

- Diminishing strategic importance of SI Re to SIL as shown, for example, by a SST ratio below 180% on sustained basis, or a significant deterioration in the standalone credit quality of SI Re.
- A downgrade of SIAV's rating

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Financial Institutions and Covered Bond issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit <https://www.fitchratings.com/site/re/10111579>

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG CONSIDERATIONS

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit <https://www.fitchratings.com/topics/esg/products#esg-relevance-scores>.

RATING ACTIONS

ENTITY / DEBT ↕	RATING ↕	PRIOR ↕
SIGNAL IDUNA Rueckversicherungs AG	LT IFS A- Rating Outlook Stable Affirmed	A- Rating Outlook Stable

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APPLICABLE CRITERIA

[Insurance Rating Criteria \(pub. 20 Jul 2023\) \(including rating assumption sensitivity\)](#)

APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Prism Factor-Based Capital Model, v1.8.0 (1)

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SIGNAL IDUNA Rueckversicherungs AG

EU Issued, UK Endorsed

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