



Fitch Affirms SIGNAL IDUNA Rueckversicherungs AG at IFS 'A-'; Outlook Stable

Fitch Ratings - Frankfurt am Main - 27 August 2019:

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.

Key Rating Drivers

The rating reflects the benefits of SI Re's ownership by SIGNAL IDUNA Lebensversicherung a. G. Group (SILV group), as captured in a two-notch uplift to the Swiss insurer's standalone credit profile (SCP) of 'bbb'. Fitch views SI Re as "very important" to SILV group under the agency's group rating methodology.

The SCP of SI Re reflects its very strong capitalisation, as well as its strong reserving and profitability. However, these positives are somewhat offset by SI Re's business profile, which we view as only good. The business profile of SI Re is a reflection of its strong market position in its chosen market segment and of its overall small size.

Fitch believes SI Re is an integral part of SILV group. SI Re benefits from organisational and IT support from the parent company, and from the group's relationship with European mutuals, which form the mainstay of SI Re's customer base. Also, around 35% of SI Re's premiums in 2018 were related to the intra-group reinsurance programme.

Under Fitch's Prism factor-based model (Prism FBM), SI Re scored 'extremely strong' at end-2018. The company, however, reported a ratio of 208% in the Swiss Solvency Test (SST) as at 1 January 2019, down from 237% at 1 January 2018. The decline in SI Re's SST coverage is driven by regulatory changes to the SST in 2018. SI Re received EUR25 million of additional capital from SILV group in June 2019 to finance future growth and to offset regulatory changes to the calculation of SST coverage. SILV group also provided SI Re with EUR25 million of contingent capital on which SI Re can draw if its SST ratio falls below 210%. On top of this contingent capital SI Re has the option to draw down a further CHF50 million capital from the group if needed.

SI Re is small in size and scale with total equity of around EUR172 million (including the capital contribution from SILV group in June 2019) and gross written premiums (GWP) of EUR139 million in 2018. It faces significant operational risk, mainly in the form of key-staff risk due to the company's small number of employees. The company recorded GWP growth of 3% in 2018 (2017: 11%), reflecting a growing customer base, a trend that we expect to continue in 2019.

Fitch views SI Re's financial performance as good. In 2018 SI Re achieved a Fitch-calculated combined ratio of 101.1% (2017: 101.9%). It has maintained stable combined ratios below 104% in the last seven years.

SI Re follows a prudent reserving approach as evidenced by strong loss-reserve development. Measured as a proportion of the prior year's loss reserve, SI Re reported an average loss-reserve release surplus of 4% for 2014-2018. We expect SI Re to maintain its prudent reserving approach.

SILV group's profitability was stable in 2018, reflecting a stronger underwriting result in life due to lower reserving requirements for the 'Zinszusatzreserve' (ZZR) and an improved non-life underwriting result being offset by lower investment income. In 2018 SILV group had EUR164 million of ZZR expenses, down from EUR492 million in 2017. In the non-life segment, SILV group achieved an improved combined ratio of 97.0% in 2018 (2017: 98.0%), which compares favourably with the group's five-year average of 98.7%.

At end-2018 SILV group's Prism FBM score remained 'strong' and the group reported a regulatory Solvency II coverage ratio of 180% (excluding the benefits from transitional measures on technical provisions).

SILV group is a part of the German SIGNAL IDUNA group, which is headed by three mutual insurance companies. In 2018, the SIGNAL IDUNA group had a total GWP of EUR5.7 billion, total assets of EUR57.5 billion and employed over 7,300 staff.

Rating Sensitivities

Rating triggers for an upgrade include SI Re becoming "Core" to SILV group in Fitch's view. However, this will require a significant increase in the absolute size of SI Re while maintaining its profitability.

Rating triggers for a downgrade include a reduction, in Fitch's view, of SI Re's strategic importance to SILV group and deterioration of the parent's credit quality, in particular through a significant decrease in capitalisation. Significant weakening of SI Re's credit profile, for example, as reflected in a SST ratio below 180%, could also lead to a downgrade.

ESG CONSIDERATIONS

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For more information on our ESG Relevance Scores, visit www.fitchratings.com/esg.

RATING ACTIONS

ENTITY/DEBT	RATING	PRIOR
SIGNAL IDUNA Rueckversicherungs AG	Ins Fin Str A- ● Affirmed	A- ●

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Applicable Criteria

Insurance Rating Criteria (pub. 11 Jan 2019)

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