07 Aug 2020 | Affirmation

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

Fitch Ratings-Frankfurt am Main-07 August 2020:

Fitch Ratings has affirmed Swiss reinsurer SIGNAL IDUNA Rueckversicherungs AG's (SI Re) Insurer Financial Strength (IFS) 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 SI Re's Standalone Credit Profile (SCP) of 'bbb'. Fitch views SI Re as 'very important' to SILV group under the agency's group rating methodology.

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 30% of SI Re's premiums in 2019 were related to the intra-group reinsurance programme.

SI Re's SCP 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. SI Re's business profile reflects its strong market position in its chosen market segment and its overall small size.

Our assessment of SI Re's capitalisation is driven by an 'extremely strong' score under Fitch's Prism factor-based model (Prism FBM) at end-2019 and a ratio of 220% in the Swiss Solvency Test (SST) as at 1 January 2020, up from 208% at 1 January 2019. The increase in SI Re's SST coverage is driven by it receiving EUR25 million of additional capital from SILV group in June 2019 to finance growth and to offset regulatory changes to the calculation of SST coverage. SILV group also committed EUR25 million of contingent capital on which SI Re can draw if its SST ratio falls below 210%. In addition 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 EUR175 million (including the capital contribution from SILV group in June 2019) and gross written premiums (GWP) of EUR164 million in 2019. 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 18% in 2019 (2018: 3%), reflecting a new proportional life reinsurance account and an increasing client base.

Fitch views SI Re's financial performance as strong. In 2019, SI Re achieved a Fitch-calculated combined ratio of 101.8% (2018: 101.1%). It has maintained stable combined ratios below 104% in the last eight years. Under its rating case assumptions Fitch expects deterioration in SI Re's financial performance due to coronavirus-related disruption, including increased credit defaults and rating migration on the investment portfolio over the near term. However, Fitch expects such an impact to be manageable for SI Re due to its strong capital position.

SILV group's profitability improved in 2019, reflecting a stronger underwriting result in non-life more than offsetting a reduced life underwriting result. In the non-life segment, SILV group achieved an improved combined ratio of 93.3% in 2019 (2018: 97.0%), which compares favourably with the group's five-year average of 97.8%. The result in the life segment was negatively affected by the reserving requirements for the 'Zinszusatzreserve'.

At end-2019 SILV group's Prism FBM score improved to 'very strong', mainly driven by increased unrealised gains, but we expect it to weaken again due to the impact of the coronavirus pandemic. The group reported a regulatory Solvency II coverage ratio of 147% (excluding the benefits from transitional measures on technical provisions) at end-2019, down from 180% at end-2018.

SILV group is a part of the German SIGNAL IDUNA group, which is headed by three mutual insurance companies. In 2019, the SIGNAL IDUNA group had a total GWP of EUR5.9 billion, total assets of EUR58.7 billion and employed over 7,400 staff.

RATING SENSITIVITIES

The ratings remain sensitive to any material change in Fitch's rating case assumptions with respect to the coronavirus pandemic. Periodic updates to our assumptions are possible given the rapid pace of changes in government actions in response to the pandemic, and the pace with which new information is available on the medical aspects of the outbreak.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

--A material adverse change in Fitch's ratings assumptions with respect to the coronavirus impact.

--A reduction, in Fitch's view, of SI Re's strategic importance to SILV group.

--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%.

Factors that could, individually or collectively, lead to positive rating action/upgrade:

--Positive rating action would be prefaced by Fitch's ability to reliably forecast the impact of the coronavirus pandemic on the financial profile of both the European insurance industry and SI Re and SILV group.

--SI Re becoming 'Core' to SILV group in Fitch's view. However, this would require a significant increase in the absolute size of SI Re while maintaining its profitability.

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, if present, is a score of 3. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity(ies), either due to their nature or to the way in which they are being managed by the entity(ies). For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

SIGNAL IDUNA Rueckversicherungs AG; Insurer Financial Strength; Affirmed; A-; RO:Sta

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Additional information is available on www.fitchratings.com

Applicable Criteria

Insurance Rating Criteria (pub. 02 Mar 2020) (including rating assumption sensitivity)

Applicable Model

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

Prism Factor-Based Capital Model, v1.7.1 (1)

Additional Disclosures

Dodd-Frank Rating Information Disclosure Form
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