

## Research

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### Research Update:

# PartnerRe Ltd., Subs Outlooks Revised To Stable From Neg.; Ratings Affirmed, Delinked From Exor

#### Primary Credit Analyst:

Taoufik Gharib, New York (1) 212-438-7253; taoufik.gharib@spglobal.com

#### Secondary Contact:

Jacob Shillman, New York (1) 212-438-2348; jacob.shillman@spglobal.com

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## Research Update:

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## Overview

- We are delinking our ratings on PRE from those on EXOR SpA (BIT: EXO).
- We are revising our outlook to stable from negative on PRE, reflecting its stand-alone credit profile.
- The stable outlook reflects our view that under Exor's ownership, PRE will preserve its capital adequacy, prudent investment, and underwriting strategies.

## Rating Action

On Sept. 7, 2016, S&P Global Ratings revised its outlook on the Bermuda-based reinsurer PartnerRe Ltd. and its operating companies (collectively PRE) to stable from negative. At the same time, we affirmed our 'A-' long-term counterparty credit rating on PartnerRe Ltd. and our 'A+' long-term counterparty credit and financial strength ratings on PRE's core operating subsidiaries.

## Rationale

The outlook revision reflects our view that PRE will preserve its very strong business risk profile and strong financial risk profile. Our ratings are also based on PRE's extremely strong capital and earnings, and are partially offset by its high-risk position arising from the company's substantial exposure to severity risk such as property catastrophe.

We have delinked the ratings on PRE from those on Exor. In our opinion, despite its 100% ownership of PRE, Exor doesn't exert full control due to the existence of substantial creditor protections. As a Bermuda-based reinsurer, PRE is prudently regulated by the Bermuda Monetary Authority (BMA) as the group supervisory role extends to the holding company and all of PRE's subsidiaries. Among other rules and regulations that PRE needs to comply with under the BMA's group supervision, PRE is required to maintain capital solvency on a group consolidated basis.

In addition, the newly formed independent board with a majority of independent directors (four out of seven) and Exor's long track record and ability not to affect or unduly influence the strategy of its investees were the main factors in supporting the substantial creditor protections. Furthermore, PRE is separately managed and maintains an arm's length relationship with Exor and other Exor investees, and there are no intercompany agreements (e.g.,

cross-default clauses, guarantees).

Exor and PRE have declared that they would like to grow PRE's capital through retained earnings and ultimately become the fourth-largest reinsurer in the world based on capital during the next few years. In addition, PRE is focusing on growing its life reinsurance business organically or potentially through bolt-on acquisitions. Life reinsurance continues to be profitable with return on equity just above 10% and increased diversification benefits.

Exor is one of Europe's leading investment companies, currently headquartered in Turin, Italy, with net asset value of about \$11.5 billion as of June 30, 2016, and more than a century of investments. We view Exor as an investment holding company. Therefore, we do not consider its creditworthiness in our ratings on PRE and we are likely to continue to base our ratings on PRE on its stand-alone credit characteristics.

We expect that under its new ownership, PRE will maintain its extremely strong capitalization redundant at the 'AAA' level, continue to manage its business autonomously, and keep its own underwriting and investment risk tolerances. In general, reinsurance pricing continues to be soft across most lines of business and regions. As a result, we expect PRE's premium growth to be flat to slightly down 2% in 2016-2017. Assuming a catastrophe load of five percentage points in the loss ratio, we forecast PRE's combined ratio in the 92%-95% range and its return on revenue in the mid-teens in 2016-2017. Finally, we expect PRE's financial leverage between 20% and 25% and fixed-charge coverage at least 5x.

We have revised our assessment of PRE's capital and earnings score to extremely strong from very strong, based on management's commitment to 'AAA' level capital through retaining earnings. As a result, the company's financial risk profile improved to strong from moderately strong. On the other hand, we have revised the company's financial flexibility score to neutral from positive, reflecting limitations associated with the new private ownership structure, notably the loss of access to the public equity markets.

## Outlook

The stable outlook reflects our opinion that PRE's overall strategy, capital adequacy, control over investments decisions, and underwriting discipline will be preserved under Exor's ownership.

### Downside scenario

We could lower the ratings on PRE if:

- We believe that the assumptions considered for delinking the ratings no longer apply. For instance, PRE's board of directors is not independent or does not comply with its fiduciary duties, BMA's group oversight is not as substantive as assumed, significant change to PRE's underwriting and investments strategies accommodating Exor's risk appetite, which

weaken PRE's financial risk profile;

- PRE suffers significant catastrophe losses outside of its risk tolerances that materially weaken PRE's earnings and capital adequacy relative to peers';
- PRE does not meet our performance expectations, especially if capital adequacy deteriorates as a result.

### Upside scenario

We are unlikely to raise the ratings in the next 24 months because of the ongoing competitive pressures battering the global P/C reinsurance sector and potential earnings volatility arising from PRE's substantial exposure to severity risk such as property catastrophe.

## Ratings Score Snapshot

PartnerRe Ltd. and operating companies

	To:	From:
Holding Company Rating	A-/Stable/--	A-/Negative/--
Financial Strength Rating	A+/Stable/--	A+/Negative/--
Anchor	a+	a+
Business Risk Profile	Very Strong	Very Strong
IICRA*	Intermediate Risk	Intermediate Risk
Competitive Position	Very Strong	Very Strong
Financial Risk Profile	Strong	Moderately Strong
Capital & Earnings	Extremely Strong	Very Strong
Risk Position	High Risk	High Risk
Financial Flexibility	Adequate	Strong
Modifiers	0	0
ERM and Management	0	0
Enterprise Risk Management	Adequate with	Adequate with
Strong Risk Controls	Strong Risk	Controls
Management & Governance	Satisfactory	Satisfactory
Holistic Analysis	0	0
Liquidity	Strong	Strong
Support	0	0
Group Support	0	0
Government Support	0	0

\*Insurance Industry And Country Risk Assessment

## Related Criteria And Research

### Related Criteria

- Methodology: Investment Holding Companies, Dec. 1, 2015
- Group Rating Methodology, Nov. 19, 2013
- Insurers: Rating Methodology, May 7, 2013
- Enterprise Risk Management, May 7, 2013
- Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010
- Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Hybrid Capital Handbook: September 2008 Edition, Sept. 15, 2008

### Related Research

- PartnerRe Ltd. Outlook Revised To Negative From Stable, Ratings Affirmed After EXOR Sale Agreement Announced, Aug. 3, 2015
- AXIS Capital Holdings Ltd., PartnerRe Ltd. Ratings Unaffected By Announced Enhanced Merger Terms, July 16, 2015
- AXIS And PartnerRe Ratings Unaffected By The Special Cash Dividend In Connection With The Previously Announced Merger, May 4, 2015
- Italian Holding Company EXOR Outlook Revised To Negative On Plan To Acquire PartnerRe; 'BBB+/A-2' Ratings Affirmed, April 17, 2015
- AXIS Capital Holdings Ltd. And PartnerRe Ltd. Ratings Affirmed, Removed From CreditWatch Negative; Outlook Stable, March 13, 2015
- PartnerRe Ltd., AXIS Capital Holdings Ltd. Ratings On CreditWatch Negative After Merger Announcement, Jan. 26, 2015

## Ratings List

Ratings Affirmed; Outlook Action

	To	From
PartnerRe Ltd. Counterparty Credit Rating Local Currency	A-/Stable/--	A-/Negative/--

Partner Re Ireland Insurance Ltd.  
Partnerre America Insurance Company  
Partner Reinsurance Europe SE  
Partner Reinsurance Co. of U.S.  
Partner Reinsurance Co. Ltd.  
Partner Reinsurance Asia Pte. Ltd.  
Financial Strength Rating  
Local Currency

A+/Stable/-- A+/Negative/--

Partner Reinsurance Asia Pte. Ltd.  
Partner Reinsurance Europe SE  
Partner Reinsurance Co. of U.S.  
Partner Reinsurance Co. Ltd.

Counterparty Credit Rating		
Local Currency	A+/Stable/--	A+/Negative/--

Ratings Affirmed

PartnerRe Ltd.	
PartnerRe Finance II Inc.	
Preferred Stock	BBB

PartnerRe Ltd.	
PartnerRe Finance A LLC	
PartnerRe Finance B LLC	
Senior Unsecured	A-

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at [www.standardandpoors.com](http://www.standardandpoors.com) for further information. Complete ratings information is available to subscribers of RatingsDirect at [www.globalcreditportal.com](http://www.globalcreditportal.com) and at [www.spcapitaliq.com](http://www.spcapitaliq.com). All ratings affected by this rating action can be found on the S&P Global Ratings' public website at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column.

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