

Research Update:

PartnerRe Ltd. Outlook Revised To Negative From Stable On Continued Underwriting Shortfalls; 'A+' Ratings Affirmed

August 7, 2020

Overview

- PartnerRe Ltd. reported a \$181 million loss for the first six months of 2020 fueled by \$338 million of COVID-19 losses, continuing the trend of lackluster underwriting performance in recent years due to higher catastrophe losses and adverse trends in certain U.S. casualty and specialty lines.
- While the COVID-19 losses are manageable, the improvement in earnings from underwriting actions could take longer to emerge than originally anticipated, especially in view of the pandemic and the resultant stresses.
- Therefore, we are revising the outlook to negative from stable and affirming all of our ratings on PartnerRe and its operating subsidiaries (collectively, PartnerRe).
- The negative outlook reflects the possibility that we could lower the ratings by one notch during the next 24 months if PartnerRe's operating performance does not improve.

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Rating Action

On Aug. 7, 2020, S&P Global Ratings revised its outlook to negative from stable on PartnerRe Ltd. and its operating subsidiaries, and affirmed its 'A-' long-term issuer credit rating on the holding company. At the same time, S&P Global Ratings affirmed its 'A+' long-term financial strength and issuer credit ratings on PartnerRe's core operating companies.

Outlook

The negative outlook reflects the possibility we could lower the ratings if PartnerRe's underwriting initiatives do not translate into meaningful improvement in the company's property-casualty (P/C) underwriting performance during the next two years, thereby weakening its competitive position.

Downside scenario

We could lower our ratings on PartnerRe during the next 24 months if:

- PartnerRe's underwriting performance does not meet our expectations;
- Its capital adequacy is below 'AAA' level redundancy and is unlikely to recover; or
- We believe the assumptions we considered for delinking the ratings on PartnerRe from those on its parent company, EXOR N.V., no longer apply. This could happen, for instance, if PartnerRe's board of directors is not independent or does not comply with its fiduciary duties, the Bermuda Monetary Authority's group oversight is not as substantive as assumed, or significant changes occur to PartnerRe's underwriting and investment strategies accommodating EXOR's risk appetite, which weakens PartnerRe's financial risk profile.

Upside scenario

We could revise the outlook to stable and affirm our ratings during the next 24 months if PartnerRe's P/C underwriting performance improves in line with our expectations and its peer group, supporting its competitive position; capitalization rebuilds to the 'AAA' level; and build-out of the life business continues to make progress.

Rationale

The outlook revision follows disappointing 2020 year-to-date results producing \$181 million of after-tax losses and a P/C combined ratio of 115.7% (112.7% excluding allocated corporate expenses). The results were marred by \$323 million of pandemic losses and \$119 million in adverse reserve development contributing 13.4% and 4.9% to the combined ratio, respectively. The market recovery in the second quarter helped offset mark-to-market losses taken by the company in the first quarter of this year, thereby reducing the net impact of net (un)realized loss to \$53 million for the first six months of 2020. This performance comes on the heels of a lackluster performance in recent years with a five-year (2015-2019) combined ratio averaging 99.8% (including corporate expenses) and return on equity of 4.9% compared with 'A+' Bermudian rated peers' average of 94.5% and 7.6%, respectively. The performance was dampened by catastrophe losses, large losses, and adverse reserve development.

We were expecting PartnerRe's underwriting initiatives of recent years involving portfolio optimization and higher technical pricing to result in an improved operating performance this year, adding on to the improving trend of accident year loss ratios, excluding catastrophes over the past couple of years. However, considering the adverse trends in certain of the company's U.S. casualty and specialty business lines, and the onset of the pandemic and resultant market stresses, the outcome of these initiatives will take longer to emerge than originally anticipated. In addition, there is some pressure on its 2020 capitalization ahead of meteorological forecasts of above-normal activity during this year's Atlantic basin hurricane season. Furthermore, the life business is still in the build-out phase and has not achieved the necessary scale to contribute in a meaningful way to the company's underwriting earnings and risk diversification.

However, we continue to believe that PartnerRe has a strong reinsurance franchise given its entrenched position as one of the larger reinsurers, broad geographic footprint, and diverse product offerings, and is well placed to benefit from a hardening market. Reinsurance pricing is strengthening across both property and casualty lines. Better technical pricing along with

underwriting initiatives over the past few years should benefit operating margins, further supported by an increasing presence in the life reinsurance business.

We expect premiums to decline by mid-single digits in 2020, before recovering in 2021-2022 due to premium exposure adjustments on the cedent side and underwriting actions, partially offset by rate increases. For 2020, we expect a P/C combined ratio of 107%-110% (inclusive of corporate expenses) including pandemic-related losses and assuming a natural catastrophe load of five percentage points. The life business earnings are affected by higher mortality and net loss for the year as the sector deals with pandemic-related fallout on both underwriting and investments. For 2021-2022, we expect a combined ratio of 94%-97%, expansion of life earnings, and a return on shareholders' equity in the high single digits. We believe the pandemic-related exposure is manageable, including the company's mortality exposure. However, we acknowledge that conditions are still fluid as the losses develop over the next few quarters.

Capitalization is expected to recover in 2021 to historical 'AAA' redundancy and remain so in 2022. Capital adequacy was slightly deficient at the 'AAA' confidence level in 2019 due to business growth and an increase in high-risk assets. Lower earnings potential for 2020 due to pandemic-driven losses and potential market volatility would likely keep capitalization depressed this year. However, earnings accrual, a shift away from higher-risk investments, and other capital management actions should assist in strengthening capitalization. We also expect that PartnerRe will retain most of its earnings over the next year or two to support its capital and take advantage of market opportunities in view of hard markets in many of its business lines. The recent announcement pertaining to Covéa Coopérations S.A. providing EUR 500 million of first tranche of capital in 2021 out of EUR 750 million to be invested in reinsurance vehicles managed by PartnerRe will likely reduce pressure on its capitalization and provides additional flexibility to target market opportunities. We expect PartnerRe's financial leverage to remain in the mid-20s and a fixed-charge coverage ratio of above 5x for 2021-2022.

Ratings Score Snapshot

PartnerRe Ltd. -- Rating Score Snapshot

	To	From
Business Risk Profile	Very Strong	Very Strong
Competitive position	Very Strong	Very Strong
IICRA	Intermediate	Intermediate
Financial Risk Profile	Strong	Strong
Capital and earnings	Excellent	Excellent
Risk exposure	High	High
Funding structure	Neutral	Neutral
Anchor*	a+	a+
Modifiers		
Governance	Neutral	Neutral
Liquidity	Adequate	Adequate
Comparable ratings analysis	0	0

PartnerRe Ltd. -- Rating Score Snapshot (cont.)

Financial Strength Rating

A+/Negative

A+/Stable

IICRA--Insurance industry country risk assessment. *This is influenced by our relative view of PartnerRe's competitive position and its recent underperformance.

Related Criteria

- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- General Criteria: Guarantee Criteria, Oct. 21, 2016
- Criteria | Corporates | Industrials: Methodology: Investment Holding Companies, Dec. 1, 2015
- 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
- Criteria | Insurance | General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- PartnerRe Ltd., July 23, 2020
- COVID-19 Pushes Global Reinsurers Farther Out On Thin Ice; Sector Outlook Revised To Negative, May 18, 2020
- PartnerRe Ltd. Outlook Revised To Stable From Positive Following Termination Of Acquisition By Covea; Ratings Affirmed, May 15, 2020
- COVID-19 Market Volatility Tests North American Reinsurers' Resilience, April 17, 2020
- U.S. Casualty Reinsurance Pricing Revives During The January 2020 Renewals, Jan. 15, 2020

Ratings List

Ratings Affirmed

PartnerRe Ltd.

PartnerRe Finance II Inc.

Preferred Stock

BBB

PartnerRe Finance B LLC

PartnerRe Ireland Finance Dac

Senior Unsecured A-

Ratings Affirmed; Outlook Action

To From

PartnerRe Ltd.

Issuer Credit Rating

Local Currency A-/Negative/-- A-/Stable/--

Partner Reinsurance Asia Pte. Ltd.

Partner Reinsurance Europe SE

Partner Reinsurance Co. of U.S.

Partner Reinsurance Co. Ltd.

Issuer Credit Rating

Local Currency A+/Negative/-- A+/Stable/--

Partner Reinsurance Asia Pte. Ltd.

Partnerre America Insurance Company

PartnerRe Life Reinsurance Company of Canada

PartnerRe Life Reinsurance Company of America

PartnerRe Ireland Insurance dac

Partner Reinsurance Europe SE

Partner Reinsurance Co. of U.S.

Partner Reinsurance Co. Ltd.

Financial Strength Rating

Local Currency A+/Negative/-- A+/Stable/--

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