

Research Update:

PartnerRe Ltd. Outlook Revised To Stable From Positive Following Termination Of Acquisition By Covea; Ratings Affirmed

May 15, 2020

Overview

- The agreement between the France-based Covea group (AA-/Stable) and EXOR N.V. (MTA: EXO IM; BBB+/Positive/A-2) to acquire the Bermuda-based reinsurer PartnerRe Ltd. for \$9 billion was terminated.
- Our positive outlook on PartnerRe was predicated on potential for stronger group support from a higher-rated new parent, Covea group.
- As a result, we are revising the outlook on PartnerRe to stable from positive and affirming all of our ratings on PartnerRe Ltd. and its operating companies (collectively, PartnerRe) based on our expectation that the COVID-19 related losses are manageable and that PartnerRe will benefit from reinsurance rate hardening given its strong franchise in the global reinsurance sector.

PRIMARY CREDIT ANALYST

Hardeep S Manku
Toronto
(1) 416-507-2547
hardeep.manku@spglobal.com

SECONDARY CONTACT

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

Rating Action

On May 15, 2020, S&P Global Ratings revised its outlook to stable from positive on PartnerRe Ltd. and its operating companies. We also affirmed our 'A-' long-term issuer credit rating on PartnerRe Ltd. and our 'A+' long-term insurer financial strength and issuer credit ratings on its core subsidiaries.

Rationale

The outlook revision reflects the fact that the upside to the ratings, which could have benefited from stronger support as part of a higher-rated entity, Covea group (AA-/Stable) with a strong balance sheet, no longer exists subsequent to the termination of the deal. On March 3, 2020, the mutual insurance Covea group announced plans to acquire PartnerRe from EXOR N.V. for \$9 billion in an all-cash transaction. Covea tried to renegotiate the terms of the deal in light of COVID-19 outbreak and resulting global recession, but EXOR decided to retain PartnerRe's

ownership. It is hard to say whether the deal could be revived, but we see low probability of that and of EXOR entertaining any other offers in view of the current depressed valuations in the sector.

In our view, PartnerRe continues to have a very strong reinsurance franchise despite lackluster performance of its property casualty (P/C) reinsurance business in recent years beset by elevated expenses, with 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. PartnerRe has meaningful presence in the global reinsurance markets and ranked as the 10th largest reinsurer in the world based on 2018 net reinsurance premiums written, based on S&P Global Reinsurance Highlights, and benefits from a strong brand name and reputation. The company offers nearly every class of reinsurance to a broad array of clients in approximately 190 countries around the world. In addition, PartnerRe's expansion of the life business provides diversification benefits, with PartnerRe estimating life value in force of \$207 million. For 2019, premiums were split 80% P/C and 20% life and health.

COVID-19 related reinsurance losses and investment losses from capital markets volatility will make it a challenging year for PartnerRe. For the first quarter, the company reported a net loss of \$422 million, driven by \$602 million of investment losses and a combined ratio of 106.9% (including corporate expenses), which includes a small charge for COVID-19 losses. Additional losses could be recognized depending on how long the shelter-in-place policies remain in effect and the depth and shape of economic recovery. We believe the COVID-19 related exposure is manageable, including the company's mortality exposure. However, we acknowledge the conditions are still fluid as the industry losses develop over the next few quarters.

Considering the strength of PartnerRe's competitive position, the hardening reinsurance pricing, and the company's strategic portfolio management initiatives, we expect the company to leverage resultant opportunities to strengthen its presence in the P/C segment and expand in the life segment despite difficult business conditions. Therefore, we expect the company to generate strong earnings in 2021 and beyond.

As will be the case for most of its peers, PartnerRe's 2020 performance will take a hit. We are lowering our 2020 performance expectations, anticipating a combined ratio of 99%-103% assuming a catastrophe load of five percentage points. For 2021-2022, we expect a combined ratio of 94%-97%, expansion of life earnings, and return on equity in the high single digits. Furthermore, we expect prospective risk-adjusted capitalization to be deficient at the 'AAA' level in 2020 because of the market volatility and potential COVID-19 losses. However, capitalization should recover its 'AAA' redundancy in 2021-2022. We also expect leverage to increase slightly and coverage ratio to decline in 2020 due to capital and earnings impact. However, we expect 2021-2022 leverage and fixed-charge coverage ratio to recover to about 25%-28% and above 5x, respectively. P/C premiums may take a hit due to lower economic activity offset by greater demand for protection from cedants and significant improvement in rate environment. We also expect higher growth rate from the life business, which is an area of focus, will continue.

Outlook

The stable outlook reflects our view that PartnerRe will maintain its very strong competitive position and that prospective capitalization will be redundant at the 'AAA' level. In addition, we expect the company will maintain its underwriting discipline and produce strong operating results within its P/C and life segments.

Downside scenario

We could lower our ratings on PartnerRe if:

- PartnerRe does not meet our above-mentioned performance expectations;
- It suffers significant catastrophe or investment losses outside of its risk tolerances that materially weaken its capital adequacy below 'AAA' level redundancy on a sustainable basis; or
- We believe the assumptions we considered for delinking the ratings on PartnerRe from those on EXOR 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 are unlikely to raise the ratings in the next two years given PartnerRe's recent P/C performance. However, we may consider a positive rating action if PartnerRe successfully navigates difficult market conditions and strengthens its competitive position leading to sustainable, strong earnings in both its P/C and life reinsurance segments. Other contributing factors would be PartnerRe's ability to limit the effect of its volatile property catastrophe and specialty business on operating earnings, including through material contribution from the life and health business providing meaningful diversification benefits, enhance its competitive position among the top-10 global reinsurers, and maintain 'AAA' capital redundancy.

Ratings Score Snapshot

PartnerRe Ltd.

	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. (cont.)

Financial Strength Rating **A+/Stable** **A+/Positive**

IICRA--Insurance industry country risk assessment.

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

- COVID-19 Market Volatility Tests North American Reinsurers' Resilience, April 17, 2020
- PartnerRe Ltd. Outlook Revised To Positive From Stable On Announced Acquisition By Covea Group; Ratings Affirmed, March 3, 2020

Ratings List

Ratings Affirmed; Outlook Action

	To	From
PartnerRe Ltd.		
Issuer Credit Rating		
Local Currency	A-/Stable/--	A-/Positive/--
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+/Stable/--	A+/Positive/--

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+/Stable/-- A+/Positive/--

Ratings Affirmed

PartnerRe Ltd.

Preferred Stock BBB

PartnerRe Finance B LLC

Senior Unsecured A-

PartnerRe Finance II Inc.

Preferred Stock BBB

PartnerRe Ireland Finance Dac

Senior Unsecured A-

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