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Summary:
Helvetia Insurance Group

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Helvetia Insurance Group

Local Currency

Credit Rating: A-/Stable/--

Rationale

The ratings on Helvetia Schweizerische Versicherungsgesellschaft AG and Helvetia Schweizerische Lebensversicherungsgesellschaft AG, core entities of the Switzerland-based Helvetia Insurance Group (Helvetia), reflect the group's strong operating performance and its strong diversified competitive position. These strengths are partly offset by Helvetia's exposure to the challenging Swiss life insurance market and still moderate, albeit improving, cost efficiency.

Standard & Poor's Ratings Services continues to view Helvetia's operating performance as strong. Helvetia's earnings have proven comparably resilient compared with peers' during the financial market crisis. Earnings benefited from strong non-life underwriting results, reflected in an average combined ratio of 94% for 2004-2008, and a relatively conservative investment strategy, which limited investment losses. This has led to a return on equity (ROE) of about 15% on average over the past five years. Helvetia has also succeeded in translating its smaller-scale positions in selected European countries into strong and sustained income that contribute about half of the group's overall earnings.

Helvetia's competitive position is strong, in our view. The group benefits from a strong franchise in Switzerland and from focused business models in selected nondomestic markets. In Switzerland, the group can draw on an extensive tied-agent network and distribution partnerships with Swiss cooperative banks (Raiffeisenbanken) and the Swissscanto Collective Foundations of the Cantonal Banks. In its nondomestic markets, Helvetia successfully develops its positions through a focused product strategy, enhanced service quality and operating flexibility, and selective acquisitions.

Interest rate conditions and the regulatory environment in Switzerland remain important risk factors in the Swiss life insurance market. We expect that earnings diversification potential from Helvetia's expansion in the unit-linked segment, stable risk profits, and declining average guarantee commitments will partly mitigate the impact from low interest rates. We therefore expect Helvetia to generate about Swiss franc (CHF) 100 million in net income from its total life portfolio, although 2008 results were only marginal because of investment losses.

Helvetia's cost efficiency is improving, but remains a competitive disadvantage at this stage, in our opinion. We believe the group's focus on high service levels and lack of scale in its nondomestic operations hamper profitability in non-life insurance and foreign niches. Helvetia has started to successfully exploit synergies throughout the group by centralizing back-office functions and expanding the business, while stabilizing its cost base.

Outlook

The stable outlook reflects our expectation that Helvetia will maintain its sound competitive position in Switzerland and further develop its geographically diversified business and earnings profile in its nondomestic markets. In

non-life insurance, underwriting discipline should remain strong, resulting in a non-life combined ratio of about 95%. The focus on higher-margin products and unit-linked and risk products in life insurance should stabilize the new-business margins at the current level of about 2% of the present value of new-business premiums. Overall operating performance should remain strong, and we expect Helvetia to report net income of about CHF300 million in 2009 and to make a further recovery in 2010, which should translate into an ROE in excess of 10%. Furthermore, we expect Helvetia to maintain at least strong capitalization.

We would see upside potential for the ratings if, on a sustained basis, Helvetia outperforms domestic peers in terms of growth and profitability, further develops its nondomestic operations, exceeds our earnings expectations, and operates with a comfortably strong capital base.

Negative rating pressure could emerge if capitalization were to deteriorate below the 'A' range or if Helvetia were to significantly underperform relative to earnings targets.

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