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Summary:

Helvetia Insurance Group

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Summary:

Helvetia Insurance Group

Local Currency

Credit Rating: A/Stable/--

Rationale

Business Risk Profile

- Helvetia Insurance Group (Helvetia) has a solid multiline franchise in the Swiss market and multiple operations in other European countries.
- As the third-largest insurance carrier in Switzerland by premiums, Helvetia benefits from a strong competitive position, in particular in the attractive Swiss property/casualty (P/C) market. The acquisition of Nationale Suisse has strengthened its competitive position in small and midsize companies and increased the exposure to the very profitable P/C market.
- Helvetia is exposed to low insurance industry and country risk overall, but has significant exposure to the Swiss life market. Almost 43% of total group premiums are from life business in Switzerland.

Financial Risk Profile

- We assess Helvetia's capital and earnings to be strong on the basis of its sustainably strong capital adequacy and high quality of capital.
- The group has kept a fairly risk-averse diversified asset allocation with around 71% of fixed income assets rated 'AA' or better.
- Following the Nationale Suisse acquisition and related financing activities, we consider Helvetia to have maintained adequate financial flexibility. The group has proven good access both to equity and capital markets, while financial leverage increased to still relatively conservative 22.5%.

Other Factors

- Helvetia's strong business and financial risk profiles result in an 'a' anchor. We expect the group's capital position will remain strongly supported by its relatively stronger operating performance than that of peers.
- We consider Helvetia's management and governance as satisfactory. The Nationale Suisse integration is progressing as planned and we expect that the group will maintain its solid track record with a focus on delivering on its Helvetia 20.20 strategy under the new CEO, who has been a longstanding member of Helvetia's management board.

Outlook

S&P Global Ratings' stable outlook on Helvetia's core operating companies Helvetia Schweizerische Versicherungsgesellschaft AG and Helvetia Schweizerische Lebensversicherungsgesellschaft AG reflects our base-case assumptions of sustained strong earnings and strong capital adequacy, supported by its well-diversified business model and relatively stronger operating performance compared with that of peers.

Downside scenario

A downgrade is unlikely in our view, but we would consider lowering the ratings over the next 18-24 months if:

- The group's capital adequacy weakened below what we consider as commensurate with the 'A' rating level on a prolonged basis. This could result from either more aggressive capital management than we currently anticipate, business and capital requirements growth that cannot be financed through earnings retentions, or substantial additional risk-taking on the asset or liability side of the balance sheet;
- Against our base-case assumptions, relative operating performance weakened over a prolonged period, e.g. evidenced by deterioration of return on equity (ROE) or the group's non-life combined ratio; or
- Financial market conditions deteriorated, against our base-case assumptions, placing increasing pressure on investment returns. This would squeeze margins in the traditional life business with guaranteed rates.

Upside scenario

We regard an upgrade as a remote possibility over the next 18-24 months. However, we would consider raising the ratings if Helvetia leveraged its international platform and materially increased its footprint in core markets without compromising group profitability while displaying further improved capital adequacy toward levels sustainably at least in the 'AA' range.

Related Criteria And Research

Related Criteria

- Insurers: Rating Methodology, May 7, 2013
- Group Rating Methodology, Nov. 19, 2013
- Enterprise Risk Management, May 7, 2013
- 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
- Hybrid Capital Handbook: September 2008 Edition, Sept. 15, 2008

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