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Summary:

Helvetia Schweizerische Versicherungsgesellschaft AG

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Table Of Contents

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Summary:

Helvetia Schweizerische Versicherungsgesellschaft AG

	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. These have been further enhanced by the recent acquisition of Nationale Suisse.
- We consider the acquisition of Nationale Suisse will strengthen the group's competitive position, particularly in the domestic market.
- Helvetia is exposed to intermediate industry and country risk, with significant exposure to the benign Swiss property/casualty (P/C) sector partly offset by exposure to riskier markets such as Italy and Spain.

Financial Risk Profile

- We consider Helvetia's capital and earnings to be strong on the basis of its strong capital adequacy and quality of capital.
- Restructuring costs will likely weigh on capital and earnings over the short term, followed by synergies taking effect over the long term.
- We consider the group to be fairly risk averse in terms of investment risk.
- We consider the group to have adequate financial flexibility following recent financing activities, reflecting moderate financial leverage and fixed charge coverage ratios and well as limited headroom for additional hybrid issuance.

Other Factors

- Under our criteria, a strong business risk profile and strong financial risk profile can lead to an anchor of 'a-' or 'a'. We have selected an 'a' anchor because we think Helvetia's business risk profile will benefit from an increasingly strong footprint in the Swiss market and a high degree of diversity in terms of business lines and geographic footprint, particularly after the integration of Nationale Suisse. We factor into the selection of the higher anchor our expectation that the group's capital and earnings will remain strong.
- We view Helvetia's management and governance as satisfactory and expect that the group will maintain its solid track record in integrating newly acquired companies.
- We consider Helvetia to have strong risk-control processes in place for all types of risk.

Outlook

The stable outlook on Helvetia reflects our expectation that the group will develop its diverse business model, sustain its strong earnings, and maintain strong capital and earnings.

Downside scenario

We could lower the ratings over the next 18-24 months if:

Financial market conditions, contrary to what we currently expect, deteriorated and heightened pressure on investment returns, reducing margins on the guaranteed rates in Helvetia's life book and potentially pushing up earnings and capital volatility;

Our overall earnings expectations for Helvetia deteriorated, potentially calling into question the sustainability of the group's earnings. This could be the case if the group's return on equity weakened to lower than 8% on a lasting basis, or if its non-life underwriting profitability worsened substantially, which would likely be indicated by the net combined ratio (claims and expenses) increasing to more than 97%; or

The group's capital adequacy according to our model weakened below what we consider commensurate with the 'A' rating level on a lasting basis, either through more aggressive capital management than we currently anticipate or through increased risk-taking.

Upside scenario

We view the likelihood of an upgrade over the next 24 months as remote. This could occur, however, if Helvetia further widened its footprint substantially in its international markets without diluting the profitability of its business, and improved capital adequacy sustainably toward levels commensurate with at least an upper 'AA' rating level.

Related Criteria And Research

- Group Rating Methodology, Nov. 19, 2013
- Insurers: Rating Methodology, May 7, 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
- Use Of CreditWatch And Outlooks, Sept 14, 2009

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