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## Research Update:

# Swiss Insurer Helvetia Affirmed At 'A'; Off Watch Neg After Financing Nationale Suisse Acquisition; Outlook Stable

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## Overview

- Helvetia has completed the financing of its Nationale Suisse Acquisition, which has resulted in strong capital adequacy, in line with our expectations.
- We think the acquisition of Nationale Suisse reinforces Helvetia's presence in Switzerland and helps balance its portfolio toward more non-life business, consequently reinforcing our strong business profile assessment.
- As a consequence, we are affirming our 'A' ratings on Helvetia and removing them from CreditWatch negative, where we placed them on July 8, 2014.
- The stable outlook on Helvetia reflects our view that the group will develop its diverse business model, sustain its strong earnings, and maintain at least strong capital and earnings.

## Rating Action

On Oct. 28, 2014, Standard & Poor's Ratings Services affirmed its 'A' insurer financial strength and counterparty credit ratings on Switzerland-based insurer Helvetia Schweizerische Versicherungsgesellschaft AG and other core or guaranteed entities of the Helvetia group (collectively referred to as Helvetia). The outlook is stable. The ratings were removed from CreditWatch, where we had placed them with negative implications on July 8, 2014.

At the same time, we affirmed the 'BBB+' issue rating on Helvetia's dual-tranche junior subordinated debt and the 'A-' issue rating on its dual-tranche senior debt and removed all the ratings from CreditWatch negative.

## Rationale

The affirmation reflects our view that Helvetia has concluded the acquisition of Nationale Suisse and secured the financing for it so as to retain capital adequacy in line with the current ratings.

We base our ratings on Helvetia on its strong business risk profile and its strong financial risk profile, the combination of which leads to either an 'a' or 'a-' anchor. We selected the 'a' anchor because of our view that Helvetia's business risk profile, particularly after the integration of Nationale Suisse, will benefit from an increasingly strong footprint in the Swiss market and a large degree of diversity both in terms of business lines and geographic footprint. We also factor into the selection of the higher anchor outcome our expectation that capital and earnings will remain at least strong.

We understand that Helvetia concluded the acquisition of Nationale Suisse by obtaining the approval of Nationale Suisse's shareholders for the takeover at an enterprise value of about Swiss franc (CHF)1.4 billion (approximately US$1.5 billion or €1.2 billion; representing 81% of the shares that were not held by Helvetia or a company acting in concert). We also understand that Helvetia's financing plans for the acquisition are complete; it has raised equity capital in the amount of about CHF535 million and issued CHF625 million of hybrid debt and CHF375 million of senior debt. As such, we consider the short-term execution and financing risks associated with the acquisition to have been alleviated.

In the longer term, we believe the acquisition will help to support Helvetia's current business risk profile. In Switzerland, the combined group will attain a position among the market's top three insurers, thereby strengthening Helvetia's competitive position, in particular in the very profitable Swiss property/casualty market. We also believe the newly formed group will benefit from combining forces in the nondomestic operations where, separately, they both had relatively smaller market positions.

The significant geographic overlap of Helvetia's and Nationale Suisse's operations indicates significant potential for cost savings and we understand Helvetia aims to realize more than CHF100 million a year in savings. In our capital and earnings forecast for the combined group, we assume integration costs will likely not allow for a significant increase in consolidated earnings for 2015 and 2016, but synergies will take hold in 2017 and beyond. In our base-case scenario, we therefore expect capital adequacy to remain in the range commensurate with an 'A' rating over the next two-three years.

We expect the transaction's financing to weaken Helvetia's fixed-charge coverage to 7x-8x (it was 12x in 2013 before the transaction) and its financial leverage to 20%-25% (9% in 2013) but we anticipate these ratios will remain stable over the next 18-24 months and in line with our view of the group's financial flexibility as adequate.

## Outlook

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

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 earnings. This could be the case if the group's return on equity weakened to sustainably lower than 8%, or if its non-life underwriting profitability worsened substantially, which would likely be indicated by the net combined ratio (loss and expense ratio) increasing to more than 97%; or
- The group's capital adequacy according to our model sustainably weakened below what we consider commensurate with the 'A' rating level, either through more aggressive capital management than we currently anticipate or through increased risk-taking.

We view the likelihood of an upgrade over the next 24 months as remote. This could occur, though, if Helvetia substantially further widened its footprint 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.

## Ratings Score Snapshot

| | To: | From: |
|---|---|---|
| Financial Strength Rating | A/Stable | A/Watch Neg |
| Anchor | a | a |
| Business Risk Profile | Strong | Strong |
| IICRA* | Low Risk | Low Risk |
| Competitive Position | Strong | Strong |
| Financial Risk Profile | Strong | Strong |
| Capital And Earnings | Strong | Strong |
| Risk Position | Intermediate Risk | Intermediate Risk |
| Financial Flexibility | Adequate | Adequate |
| Modifiers | 0 | 0 |
| ERM and Management | 0 | 0 |
| Enterprise Risk Management | Adequate With Strong Risk Controls | Adequate With Strong Risk Controls |
| Management And Governance | Satisfactory | Satisfactory |
| Holistic Analysis | 0 | 0 |
| Liquidity | Exceptional | Exceptional |
| Support | 0 | 0 |
| Group Support | 0 | 0 |
| Government Support | 0 | 0 |

*Insurance Industry And Country Risk Assessment.

## 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

## Ratings List

CreditWatch/Outlook Action; Ratings Affirmed

| | To | From |
|---|---|---|
| Helvetia Schweizerische Versicherungsgesellschaft AG | | |
| Counterparty Credit Rating | A/Stable/-- | A/Watch Neg/-- |
| Financial Strength Rating | A/Stable/-- | A/Watch Neg/-- |
| Senior Unsecured | A- | A-/Watch Neg |
| Junior Subordinated | BBB+ | BBB+/Watch Neg |
| Helvetia Schweizerische Lebensversicherungsgesellschaft AG | | |
| Counterparty Credit Rating | A/Stable/-- | A/Watch Neg/-- |
| Financial Strength Rating | A/Stable/-- | A/Watch Neg/-- |
| Helvetia Assurances S.A. | | |
| Financial Strength Rating | A/Stable/-- | A/Watch Neg/-- |

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