

Research Update:

PartnerRe Ltd. Outlook Revised To Positive From Stable On Announced Acquisition By Covea Group; Ratings Affirmed

March 3, 2020

Overview

- France-based mutual insurance Covea group (AA-/Stable/--) announced plans to acquire the Bermuda-based reinsurer PartnerRe Ltd. and its subsidiaries (collectively, PartnerRe) from EXOR N.V. (MTA: EXO IM) for \$9 billion.
- Once the deal closes, we will likely view PartnerRe as strategically important to Covea group and we believe PartnerRe's stand-alone characteristics will likely be unchanged.
- We are revising our outlook on PartnerRe to positive from stable because of potential stronger group support from the new, higher-rated parent.
- We are affirming all our ratings on PartnerRe and its operating subsidiaries.

PRIMARY CREDIT ANALYST

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

SECONDARY CONTACT

Saurabh B Khasnis
Centennial
(1) 303-721-4554
saurabh.khasnis@spglobal.com

Rating Action

On March 3, 2020, S&P Global Ratings revised its outlook to positive from stable on PartnerRe Ltd. and its operating companies. We also affirmed our 'A-' long-term issuer credit rating on PartnerRe and our 'A+' long-term insurer financial strength and issuer credit ratings on its core subsidiaries.

Rationale

The outlook revision follows the announcement that EXOR has entered into an agreement with France-based mutual insurance Covea group for the sale of PartnerRe for \$9 billion in an all-cash transaction. The acquisition is expected to close in the fourth quarter of this year.

The outlook revision reflects our view that, subsequent to the acquisition, PartnerRe could benefit from stronger support as part of a higher-rated group with a strong balance sheet. The acquisition of PartnerRe is transformative for Covea and markedly changes its business mix. The newly combined group would benefit from PartnerRe's globally diversified reinsurance platform having a strong franchise and complementing Covea's leading but concentrated position in the French

primary nonlife insurance business, thereby enhancing the combined business profile. We anticipate that PartnerRe's stand-alone credit profile (SACP) will likely be unchanged post-acquisition, in view of Covea's plan to manage PartnerRe on a stand-alone basis. Furthermore, there is minimal business overlap between the two groups and little expectation of cost synergies, which should preserve PartnerRe's competitive strength and help manage key talent and client retention. Together, these contribute to relatively lower integration risks, in our view. On successful execution, we believe that PartnerRe would potentially benefit from the strength of the combined group over the longer term. However, the different risk profile of the reinsurance business as compared with Covea's traditional business, higher appetite for severity risk (including property-catastrophe) and resultant volatility profile, and different corporate cultures might present challenges for Covea.

These considerations and PartnerRe's prospective material earnings contribution to the newly formed group also support our assessment of the company's strategically important status on close of the transaction, which, along with PartnerRe's SACP, underlies our ratings affirmation. PartnerRe's credit profile reflects its meaningful presence in the global reinsurance markets (10th largest reinsurer in the world based on 2018 net reinsurance premiums written) and its strong brand name and reputation. The group offers almost every class of reinsurance to a broad array of clients in approximately 190 countries around the world, with a 2019 premiums split of approximately 80% nonlife and 20% life and health. Considering the strength of the company's competitive position and its strategic portfolio management, we expect PartnerRe to leverage resultant opportunities in both nonlife and life segments despite underwriting losses in recent years and challenging business conditions, notwithstanding recent price increases in view of 2017-2019 catastrophe losses. We expect PartnerRe's gross premiums to increase by a high single digit-to-low double digit percentage in 2020 and be in the mid-single digits in 2021, with a higher growth rate from the life business, which is a focus area, and flat-to-slight growth in the non-life segment as the company undertakes underwriting actions. For 2020-2021, assuming an average catastrophe year, PartnerRe is expected to generate a non-life combined ratio of 93%-96%, including a catastrophe load of five percentage points, and return on revenue in the low to mid-teens. We expect its financial leverage below 25% and fixed-charge coverage to be at least 5x over the same period.

Outlook

The positive outlook reflects the potential for stronger group support for PartnerRe under the new ownership. We expect the company will maintain its very strong competitive position supported by improvement in operating performance and by an expanding presence in the life reinsurance business, while maintaining excellent capitalization that is redundant at the 'AAA' level.

Upside scenario

We could raise our ratings during the next two years to the level of those on the combined Covea group if, subsequent to acquisition close, we determine PartnerRe to be a core sub-group to the newly combined entity. The core group status will depend on the following considerations:

- Continued execution of PartnerRe's strategic plan, as part of a larger group, leading to sustainable, strong earnings in both the nonlife and life/health reinsurance segments while cementing its underwriting and optimizing its portfolio toward higher-margin businesses;
- Successful integration of PartnerRe, with a tangible earnings contribution helping Covea group to generate strong and stable earnings;

- Covea's ability to intake and adjust to PartnerRe's relatively volatile business profile, including enterprise risk management, highlighting adequate seasoning of the acquisition, and
- Covea's long-term commitment to support PartnerRe similar to its other core businesses.

Downside scenario

We will revise our outlook to stable and affirm the ratings if the acquisition doesn't complete, which is unlikely in our view; or if the conditions highlighted above for a core group status are not met.

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
Financial Strength Rating	A+/Positive	A+/Stable

IICRA--Insurance Industry and Country Risk Assessment. *This is influenced by our view of the ongoing competitive pressures, though somewhat abated, affecting the global P/C reinsurance sector and potential earnings volatility from PartnerRe's exposure to property catastrophe and other severity risks, partially offset by diversification benefit from growing life business.

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

- France-Based Covea Group Core And Guaranteed Subsidiaries Affirmed At 'AA-' On Plan To Buy PartnerRe; Outlook Stable, March 3, 2020
- PartnerRe Ltd. 'A-' Ratings And Core Subsidiaries 'A+' Ratings Affirmed; Outlook Remains Stable, July 25, 2019

Ratings List

Ratings Affirmed

PartnerRe Ltd.

PartnerRe Finance II Inc.

Preferred Stock	BBB
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PartnerRe Finance B LLC

PartnerRe Ireland Finance Dac

Senior Unsecured	A-
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Ratings Affirmed; Outlook Action

	To	From
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PartnerRe Ltd.

Issuer Credit Rating	A-/Positive/--	A-/Stable/--
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Partner Reinsurance Asia Pte. Ltd.

Partner Reinsurance Europe SE

Partner Reinsurance Co. of U.S.

Partner Reinsurance Co. Ltd.

Issuer Credit Rating	A+/Positive/--	A+/Stable/--
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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	A+/Positive/--	A+/Stable/--
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