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## Research Update:

# Swiss Insurer Baloise Upgraded To 'A+' On Strengthening Capital Position; Outlook Stable

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## Research Update:

# Swiss Insurer Baloise Upgraded To 'A+' On Strengthening Capital Position; Outlook Stable

## Overview

- Composite insurance group Baloise has consolidated its capital adequacy at extremely strong levels according to our risk-based model, sustained by sound retained earnings and a conservative growth and investment strategy.
- We are therefore raising the issuer credit and insurer financial strength ratings on the core operating entities of Baloise to 'A+' from 'A'. We are also raising the rating on Basler Sachversicherungen to 'A' from 'A-' and the rating on Baloise Holding to 'A-' from 'BBB+'.
- The stable outlook reflects our expectation that Baloise will maintain its capital adequacy at extremely strong levels, backed by sound earnings from both its property casualty and life businesses in 2018-2020 and an unchanged dividend policy supporting capital accumulation.

## Rating Action

On June 27, 2018, S&P Global Ratings raised to 'A+' from 'A' the long-term issuer credit and insurer financial strength ratings on the core operating entities of Switzerland-based composite insurance group Baloise: Basler Versicherung AG, Basler Leben AG, and Baloise Belgium N.V. At the same time, we raised the long-term issuer credit and insurer financial strength ratings on the group's holding company Baloise Holding AG to 'A-' from 'BBB+' and on Germany-based Basler Sachversicherung AG to 'A' from 'A-'. The outlook is stable.

## Rationale

The rating upgrade reflects our view that Baloise's capital adequacy has strengthened in recent years to levels comfortably above the 'AAA' range as measured by S&P Global Ratings' capital model. We expect Baloise will consolidate its capital at this level, sustained by continued sound net retained earnings and a conservative investment and growth strategy.

We estimate Baloise will report net income of at least Swiss franc (CHF) 500 million per year, a return on equity (ROE) of 8%-10%, and a combined ratio of 93%-95% in 2018-2020. At the same time, we believe the group will maintain a conservative investment strategy and a careful growth strategy, including M&A and an unchanged dividend policy in line with previous years. We accordingly

estimate capital adequacy will strengthen within the 'AAA' level over the two-year rating horizon. The group reported a Swiss Solvency Test capital adequacy of 262% by end of 2017.

Our view of Baloise's strong competitive position reflects its solid foothold in its core markets--Switzerland, Belgium, and Luxemburg--where it holds top market positions. The group also operates in Germany, but its competitive strength in that market is less prominent, in our view. The group has sound product and premium diversity, offering life and property/casualty (P/C) insurance products in its target markets.

We believe that, in life insurance, Baloise benefits from its strategy skewed towards capital-efficient products and biometric products, with a focus less on premium growth but more toward increasing new business margins. In P/C insurance, Baloise continues to post strong earnings, with a group combined ratio of 92.3% in 2017 and 93.5% on average over the past five years, mainly backed by strong domestic performance and its well diversified book of P/C business. Baloise Bank SoBa (not rated) complements the product range mainly with mortgage products. We believe the group's main strength stems from its domestic insurance business. While the contribution of the international business to overall earnings is growing, it remains limited compared to higher rated insurers.

## **Outlook**

The stable outlook is based on our expectation that Baloise will maintain its current extremely strong capital adequacy levels, backed by sound earnings from both the P/C and life businesses in 2018-2020. We expect the group will maintain its capital adequacy comfortably at the 'AAA' level, according to our capital model, backed by sound earnings of at least CHF500 million per year in 2018-2020, an unchanged dividend policy, and a continued conservative investment and growth strategy.

### **Downside scenario**

We could lower the ratings over the next 24 months if capital were to weaken because of significantly lower-than-expected retained earnings or a shift toward a more aggressive risk appetite in terms of acquisition, growth, and product offering.

### **Upside scenario**

We see limited rating upside in the next 24 months. We could take a positive rating action if we were to see a substantial enhancement in Baloise's business risk profile through a higher earnings contribution from countries other than Switzerland or by noninsurance business, assuming it also maintained its risk position and earnings stability at the current level.

## Ratings Score Snapshot

	To	From
Financial Strength Rating	A+/Stable/--	A/Positive/--
Anchor	a+	a
Business Risk Profile	Strong	Strong
IICRA	Low Risk	Low Risk
Competitive Position	Strong	Strong
Financial Risk Profile	Extremely Strong	Very Strong
Capital and Earnings	Extremely Strong	Very Strong
Risk Position	Intermediate	Intermediate
Financial Flexibility	Adequate	Adequate
Modifiers	0	0
ERM and Management	0	+1
Enterprise Risk Management	Strong	Strong
Management & Governance	Satisfactory	Satisfactory
Holistic Analysis	0	-1
Liquidity	Exceptional	Exceptional
Support	0	0
Group Support	0	0
Government Support	0	0

IICRA--Insurance Industry and Country Risk Assessment.

## Related Criteria

- General Criteria: Principles For Rating Debt Issues Based On Imputed Promises, Dec. 19, 2014
- Criteria - Insurance - General: Methodology For The Classification And Treatment Of Insurance Companies' Operational Leverage, Oct. 31, 2014
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- Criteria - Insurance - General: Enterprise Risk Management, May 7, 2013
- Criteria - Insurance - General: Insurers: Rating Methodology, May 7, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- General Criteria: Criteria Clarification On Hybrid Capital Step-Ups, Call Options, And Replacement Provisions, Oct. 22, 2012
- Criteria - Insurance - General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010

- Criteria - Financial Institutions - General: Methodology: Hybrid Capital Issue Features: Update On Dividend Stoppers, Look-Backs, And Pushers, Feb. 10, 2010
- Criteria - Financial Institutions - Banks: Assumptions: Clarification Of The Equity Content Categories Used For Bank And Insurance Hybrid Instruments With Restricted Ability To Defer Payments, Feb. 9, 2010
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Criteria - Insurance - General: Hybrid Capital Handbook: September 2008 Edition, Sept. 15, 2008

## Ratings List

Upgraded; CreditWatch/Outlook Action

	To	From
Basler Versicherung AG		
Baloise Belgium N.V.		
Counterparty Credit Rating		
Local Currency	A+/Stable/--	A/Positive/--
Financial Strength Rating		
Local Currency	A+/Stable/--	A/Positive/--
Basler Leben AG		
Counterparty Credit Rating		
Local Currency	A+/Stable/--	A/Positive/--
Junior Subordinated	A-	BBB+
Baloise Holding AG		
Counterparty Credit Rating		
Local Currency	A-/Stable/--	BBB+/Positive/--
Basler Sachversicherungs AG		
Counterparty Credit Rating		
Local Currency	A/Stable/--	A-/Positive/--
Financial Strength Rating		
Local Currency	A/Stable/--	A-/Positive/--

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Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at [www.standardandpoors.com](http://www.standardandpoors.com) for further information. Complete ratings information is available to subscribers of RatingsDirect at [www.capitaliq.com](http://www.capitaliq.com). All ratings affected by this rating action can be found on S&P Global Ratings' public website at

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