

Fortis Insurance Ltd.

United Kingdom

pi Analysis

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Credit Analyst:

Alison Cheal, London (44) 20-7176-7078; alison_cheal@standardandpoors.com

■ Rationale

Standard & Poor's has lowered the insurer financial strength rating of Fortis Insurance Ltd (FIL) to BBBpi (Good) from Api (Strong), following the lowering on Oct 6, 2008 of ratings on the parent group's two holding companies, Fortis SA/NV and Fortis N.V., to BBB-/Watch Neg/A-3. The downgrade also reflects reduced financial flexibility and no longer includes any credit for implied support from the group. Positive rating factors are strong though weakened earnings, good capitalisation and good reserves. The rating has been based upon FIL's 2007 annual report & accounts and UK regulatory return.

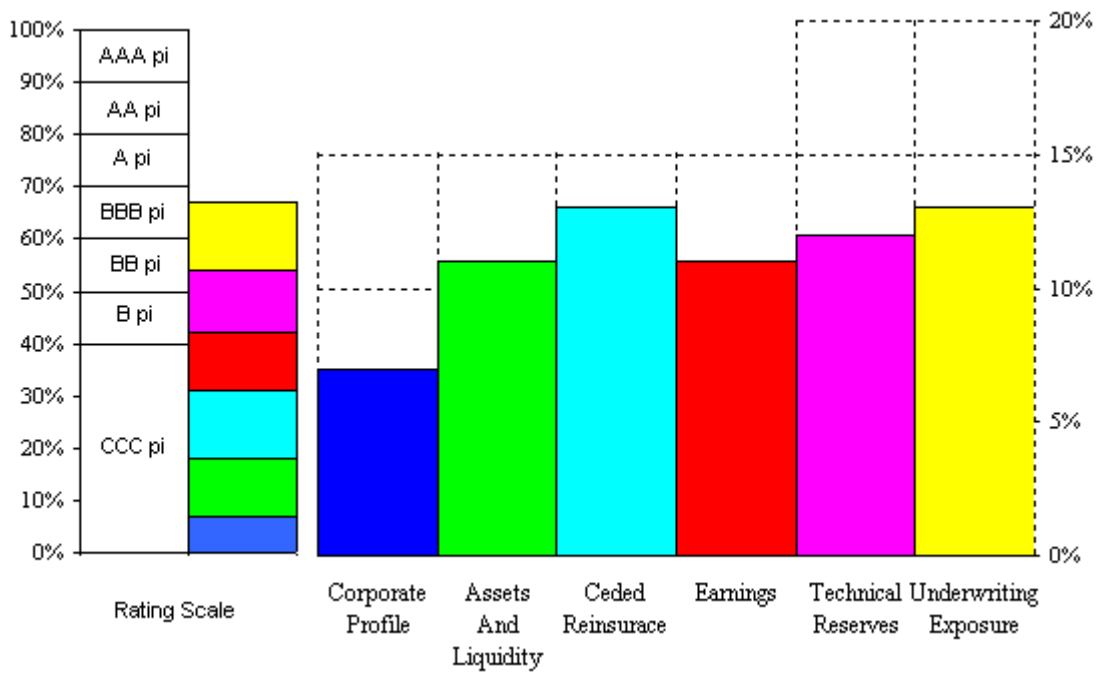
FIL's competitive position benefits from the company being one of the larger personal lines insurers in the UK, mainly writing motor and household insurance and also some travel and liability business. Business is largely sourced through insurance intermediaries and affinity groups. It is one of the top five motor insurers in the UK in terms of gross premiums written, with an approximate 4% share of this market. Although competition for UK personal lines business is strong, FIL achieved 17% growth in motor gross premiums during 2007, whereas personal household business reduced by 1%. The company has limited exposure to reinsurer failure given that 96% of business written is retained by FIL, although the main reinsurer is unrated Fortis Re (Netherlands). Anticipated reinsurance recoveries from Fortis Re totalled £68.4 m for 2007, equating to approximately 9% of FIL's total gross outstanding loss reserves and 23% of adjusted shareholders funds (ASF).

Earnings have weakened but are considered strong overall. FIL's underwriting results in recent years have been very strong. However, the adverse weather related events experienced during 2007 had a detrimental effect on FIL's results, with significant underwriting losses recorded on the property account where the combined ratio deteriorated to 123% from 92% in 2006. Reserve releases from prior years' claims provisions of £39.2 m (2006 £25.2 m), mainly emanating from the motor business, benefited the underwriting result and an overall combined ratio of 107% was recorded (2006 97%). Excluding the prior years' releases the pure accident year combined ratio stood at approximately 112% (2006 102%). A small pre-tax return on equity of 4% (2006 24%) was achieved thanks to good investment returns. No dividend was paid during the year and retained earnings of £9.0 m coupled with unrealised gains arising from the revaluation of financial assets of £8.9 m contributed to the 6% increase in ASF.

Capitalisation is considered good. Standard & Poor's risk-based analysis of FIL's 2007 financials suggests capital is supportive of the rating. Given the 10% growth in net premium written during the year the solvency ratio (net premium written/ASF) remained fairly steady at 245% (2006 238%), which although somewhat weaker than peers is considered good given the mix of business written.

Technical reserves are considered satisfactory. The short to medium tail nature of the majority of business written is reflected in the ratio of loss reserves to net premium written of 88% in 2007, considered satisfactory given the recent history of reserve releases. Reserves are supported by very strong asset liquidity, with liquid assets covering technical reserves 1.2x (2006 1.2x). The composition of FIL's balance sheet remains very conservative with 84% of total assets held as bonds and no equity exposure.

This rating was initiated by Standard & Poor's Ratings Services. It may be based solely on publicly available information and may or may not involve the participation of the issuer's management. Standard & Poor's Ratings Services has used information from sources believed to be reliable but does not guarantee the accuracy, adequacy, or completeness of any information used.



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