

The Litmus Rating Review

International Reinsurance, Commercial and Specialty Lines Edition

CONTENTS

PAGE 1

Overview

PAGE 2

Recent Litmus Blogs, Make-up of the Ratings Review Cohorts & the Litmus Composite Score (LCS) Methodology

PAGE 3

Commercial Majors Table

PAGE 4

Reinsurance Majors Table

PAGE 5

L-Zebedees Table

PAGE 6

Litmus Commentary— Measuring Operating Performance; why neither RoEs or Combined Ratios fully cut it

PAGE 7

Individual Rating Agency Activity

PAGE 8

About Litmus Analysis, Links

To ensure you receive your free copy of the LRR each month contact us -

papers@litmusanalysis.com

Overview

A combination of the reinsurance conference season and a set of ratings average tables we published with Intelligent Insurer on Global, European and North American reinsurance groups respectively (see their [September](#) and [October](#) editions) means that we last published our LRR in July.

But for most of the intervening period we would have been repeating the same story; despite the pricing concerns individual reinsurer ratings are being affirmed or – in some cases (usually those with large primary market exposures) - upgraded.

S&P's move to take Lloyd's rating outlook back to 'stable' from 'positive' marked the first specific negative reaction by an agency to the market environment (though an outlook change is not technically a 'rating action' and we should stress Lloyd's rating remains at a very robust level).

We covered the wider details behind S&P's Lloyd's rating back in [July's LRR](#).

The key point – to us – is S&P's move to forecasting that Lloyd's will only break-even on underwriting for 2015 and 2016. That's significantly worse than the agency's forecasts for most other reinsurers (whose ratings it typically reported on earlier in the year), and a 10 point deterioration from what the agency expects for the market this year. Since we know of no particular reason

why Lloyd's numbers should be expected to be worse than those for many other market participants we presume this will become S&P's base-case when conducting its next round of reinsurer rating reviews. Some S&P ratings – or at least some outlooks - would pretty much have to come under pressure if that's the case. Indeed the agency said as much during Baden-Baden.

Rating agency earnings forecasts are inevitably highly reflective of what they are told by rated companies even if the agency's final view differs somewhat from the rated group's own numbers (agencies are 'insiders' so this discussion can include information not publicly disclosed even for listed firms). We doubt therefore that Best, Moody's or Fitch will end up reaching very different conclusions (although Fitch's presentation in Monte Carlo included the surprisingly positive expectation that accident year non-cat combined ratios for reinsurers will average the same 88% for 2015 that the agency reports for 2013).

For this edition we've made some changes to the LRR tables and related calculations. We now include all 4 of the main agencies in the LCS calculation and have adjusted our tie-break methodology accordingly. Further details are on page 2. As ever we welcome your feedback.

Litmus Score Averages as at 06/11/2014						
	S&P			A.M. Best		
	Mean LS ¹	Mean Rating	RI ²	Mean LS ¹	Mean Rating	RI ²
Commercial Majors						
Total Cohort	85.8	A+	R6	86.6	aa-	R2
Dual Rated Only	85.9	A+	R6	86.6	aa-	R2
Reinsurance Majors						
Total Cohort	86.4	AA-	R2	87.8	aa-	R4
Dual Rated Only	86.4	AA-	R2	87.8	aa-	R4
L-Zebedees						
Total Cohort	80.2	A	R4	82.7	a+	R2
Dual Rated Only	80.2	A	R4	83.2	a+	R3

¹LS=Litmus Score

²RI = Resilience Indicator

For a detailed explanation of our methodology please visit [The Litmus Website](#).

Recent Litmus Blogs

['The end of the life of pi' \(the demise of unsolicited ratings\)](#)
(6 November 2014)

[The Heat is On](#) (21 October 2014)

[Mutual Appreciation—a rating agency conundrum](#)
(31 July 2014)

[Why is the current pricing pain not yet impacting reinsurer ratings?](#) (17 July 2014)

[Aspen & Endurance; Spot the performance difference?](#)
(2 July 2014)

Litmus Guides

[The Litmus Ratings Guide; Non-Life Re/Insurers](#)
(10 March 2014) Covers various issues ratings users should be aware of for effective and appropriate use of ratings.

[The Litmus First XI—Top Tips for Managing the Relationship with your Rating Agency](#)
(15 September 2013) A summary reference guide to the most common issues we see when re/insurers feel their rating is not what they deserve.

[The Litmus Analysis Quick Reference Guide To Non-Life Re/Insurer Key Metrics and Ratios](#)
(12 September 2013)
A straight-forward summary of how the most commonly used ratios are calculated and why they are used. Including our guide to 'whether a higher number is better or worse'.

The make-up of the 'Litmus Rating Review' ('LRR') cohorts

The three cohorts covered within the LRR are chosen to provide a representative picture of the credit profile of the international large commercial lines, reinsurance & specialty lines sectors. As the LRR is a ratings-focussed publication the nature of each group's business profile as that relates to ratings plays a role in its inclusion overall and the cohort it is assigned to. Each named group or sub-group has a 'group reference carrier' (GRC) selected by us whose rating we believe best represents the group's credit profile for the relevant sector. A group or sub-group may be represented in more than one cohort.

The 'Commercial Majors'

Groups with substantial international commercial lines operations, typically active in providing 'global programs'.

The 'Reinsurance Majors'

Either non-life reinsurance groups that we regard as inherently global (including those who also write material amounts of life reinsurance business) or those globally active primary groups with material 'third-party' reinsurance operations.

The 'L-Zebedees'

Either groups whose operations are highly orientated to the kind of reinsurance and speciality business written in the major hubs of London, Zurich, Bermuda, Dublin or Singapore OR sub-groups who fit this profile and who appear operationally or financially discrete from the total group profile (Odyssey Re and Sirius International being examples of the latter).

Litmus Composite Score (LCS) Methodology

Overview

The LCS is a method of averaging the ratings from a number of rating agencies. Please note that it is not a rating and involves no rating analysis from Litmus; we simply provide the averaging methodology.

We begin by producing the Litmus Score (LS). This translates each agency's Financial Strength Rating (FSR) on the quoted carrier to a numerical score. The exact score assigned reflects both the rating and the rating outlook. As A.M. Best uses a different rating scale from the other rating agencies for their FSRs, we use the A.M. Best issuer credit rating (ICR) assigned to the carrier (and its outlook).

Where ratings from more than one agency exist we then produce the Litmus Composite Score (LCS) and map that back to the rating scale used by Fitch and S&P.

In the event that the LCS comes out at a point equidistant from the relevant ratings scale mappings (eg, as with an LCS outcome of 86 being two points away from both the AA– and A+ mappings), meaning there is no clear outcome for the LCS, we apply our 'tiebreak' criteria.

For further details on the LS and LCS calculations, mapping tie-breakers and the use of A.M. Best ICRs please see [The Litmus Ratings Review Methodology](#).

Ratings Round-up, LS and LCS outcomes - Commercial Majors

Ratings as at 06/11/14

Group	Group Commercial Lines Reference Carrier	Domicile	LC/LCS	Single or Average Rating	Rating/LCS Outlook or Watch	Ratings Source (LCS= Average)	LCS Tiebreak Applied	LCS Resilience Indicator	AM Best	Fitch	Moody's	S&P	LUCID				
			Rating (LS) or Average Rating (LCS)					Individual Agency Rating/Outlooks/Watches									
Ace	ACE European Group Ltd	UK	94.0	AA	Pos	LCS	N/T	R7	aa+	Sta	NR	AA	StA	ACEG/A1405A			
AIG	AIG Property Casualty Co	US	82.0	A	Pos	LCS	N/T	R7	a	Sta	A	Sta	A1	Sta	A+	StA	AIGG/A1284A
Allianz	Allianz Global Corporate & Specialty SE	DE	90.0	AA	Neg	LCS	P/T	R1	aa-	Sta	NR	AA	StA	ALLI/A1442A			
AVIVA	Aviva Insurance Ltd	UK	83.7	A+	Sta	LCS		R4	a+	Neg	NR	A1	Sta	A+	StA	AVIV/A2652A	
Axa	AXA Corporate Solutions Assurance	FR	86.5	AA-	Neg	LCS		R6	NR	NR	AA-	Sta	NR	A+	Pos	AXAG/A4297A	
Chubb	Federal Insurance Co	US	93.3	AA	Pos	LCS		R6	aa+	Pos	AA	Sta	Aa2	Sta	AA	StA	CHUB/A1708A
Generali	Assicurazioni Generali SpA	IT	75.8	A-	Sta	LCS		R4	a	Sta	A-	Sta	Baa1	Sta	A-	Neg	GENR/A3509A
HDI	HDI-Gerling Industrie Versicherung AG	DE	84.0	A+	Sta	LCS		R4	a+	Sta	NR		NR		A+	StA	HDIG/A2366A
Lloyd's	N/A	N/A	85.7	A+	Pos	LCS		R6	a+	Pos	AA-	Sta	NR		A+	StA	N/A
Mapfre	Mapfre Global Risks Compania Internacional SA	ES	77.7	A-	Pos	LCS		R6	a	Sta	A-*	Sta	Baa1	Pos	A	StA	MAPF/A2275A
QBE	QBE Insurance (Europe) Ltd	UK	81.7	A	Pos	LCS		R6	a	Neg	A+	Neg	NR		A+	Neg	QBEG/A2131A
Travelers	Travelers Indemnity Co	US	93.0	AA	Pos	LCS		R6	aa+	Sta	AA	Sta	Aa2	Sta	AA	StA	TRAV/A3892A
Tokio Marine	Tokio Marine & Nichido Fire Insurance Co	JP	90.3	AA	Neg	LCS		R2	aa+	Sta	AA-*	Neg	Aa3	Sta	AA-	Neg	TOMA/A2317A
XL	XL Insurance (Bermuda) Ltd	BM	82.3	A+	Neg	LCS		R2	a	Pos	A+	Sta	A2	Sta	A+	StA	XLGR/A3035A
Zurich	Zurich Insurance Company Ltd	CH	88.3	AA-	Sta	LCS		R4	aa-	Sta	AA-*	Sta	Aa3	Sta	AA-	Pos	ZURI/A3936A

*Indicates an 'unsolicited' rating. For consistency reasons these are not used in LS or LCS calculations where one or more 'solicited' ratings exist. Please note this does not imply any view taken by Litmus as to the validity of 'unsolicited' ratings.

Ratings can and do change and we strongly advise readers to check with the relevant agency websites for the latest information and the relevant rating definitions.

Where a rating, outlook or review status has changed since the date noted above Litmus will be pleased to consider recalculating the LS, LCS and RI privately for any LRR reader on request. This is a complimentary service and we are pleased to offer this wherever practical, however it is subject to our other commitments and availability.

Litmus has not sought any endorsement from the rating agencies for the LS and LCS calculation methodology and results. Nor do we offer an endorsement of the ratings quoted here.

Please note that the Litmus Scores are not ratings; Litmus Analysis is not a rating agency.

Ratings Round-up, LS and LCS outcomes - Reinsurance Majors													Ratings as at 06/11/14					
Group	Group Reinsurance Reference Carrier	Domicile	LC/LCS	Single or Average Rating	Rating/LCS Outlook or Watch	Ratings Source (LCS= Average)	LCS Tiebreak Applied	LCS Resilience Indicator	AM Best		Fitch		Moody's		S&P		LUCID	
			Rating (LS) or Average Rating (LCS)						Individual Agency Rating/Outlooks/Watches									
Ace	Ace Tempest Reinsurance Ltd	BM	92.0	AA	Sta	LCS		R4	aa+	Sta	AA	Sta	Aa3	Sta	AA	Sta	ACEG/A14554A	
Alleghany	Transatlantic Reinsurance Co	US	84.3	A+	Sta	LCS		R4	a+	Pos	A+*	Sta	A1	Sta	A+	Sta	ALLE/A1213A	
Berkshire Hathaway	National Indemnity Co	US	97.3	AA+	Pos	LCS		R6	aaa	Sta	AA+*	Sta	Aa1	Sta	AA+	Sta	BEHA/A2374A	
Everest Re	Everest Reinsurance Co	US	85.3	A+	Pos	LCS		R6	aa-	Sta	NR		A1	Sta	A+	Sta	EVER/A1756A	
HDI	Hannover Ruckversicherung SE	DE	88.0	AA-	Sta	LCS		R4	aa-	Sta	AA-*	Sta	NR		AA-	Sta	HDIG/A2565A	
Mapfre	Mapfre Re, Compania de Reaseguros SA	ES	80.0	A	Sta	LCS		R4	a	Sta	A-*	Sta	NR		A	Sta	MAPF/A2319A	
Munich Re	Munich Reinsurance Co	DE	88.0	AA-	Sta	LCS		R4	aa-	Sta	AA-	Sta	Aa3	Sta	AA-	Sta	MUNR/A2234A	
Partner Re	Partner Reinsurance Co	BM	86.0	AA-	Neg	LCS	P/T	R1	aa-	Sta	AA-	Sta	A1	Sta	A+	Sta	PART/A1957A	
QBE	QBE Reinsurance Corp	US	81.7	A	Pos	LCS		R6	a	Neg	A+	Neg	NR		A+	Neg	QBEG/A2544A	
SCOR	SCOR Global P&C SE	FR	84.5	A+	Pos	LCS		R5	a+	Sta	A+	Pos	A1	Sta	A+	Pos	SCOR/A2437A	
Swiss Re	Swiss Reinsurance Company Ltd	CH	88.0	AA-	Sta	LCS		R4	aa-	Sta	A+*	Pos	Aa3	Sta	AA-	Sta	SWRE/A1798A	
Tokio Marine	Tokio Millenium Re AG	CH	91.5	AA	Neg	LCS		R3	aa+	Sta	NR		NR		AA-	Neg	TOMA/A2016A	
XL	XL Re Ltd	BM	82.3	A+	Neg	LCS		R2	a	Pos	A+	Sta	A2	Sta	A+	Sta	XLGR/A2200A	

*Indicates an 'unsolicited' rating. For consistency reasons these are not used in LS or LCS calculations where one or more 'solicited' ratings exist. Please note this does not imply any view taken by Litmus as to the validity of 'unsolicited' ratings.

Ratings can and do change and we strongly advise readers to check with the relevant agency websites for the latest information and the relevant rating definitions.

Where a rating, outlook or review status has changed since the date noted above Litmus will be pleased to consider recalculating the LS, LCS and RI privately for any LRR reader on request. This is a complimentary service and we are pleased to offer this wherever practical, however it is subject to our other commitments and availability.

Litmus has not sought any endorsement from the rating agencies for the LS and LCS calculation methodology and results. Nor do we offer an endorsement of the ratings quoted here.

Please note that the Litmus Scores are not ratings; Litmus Analysis is not a rating agency.

Ratings Round-up, LS and LCS outcomes - L-Zebedees

Ratings as at 06/11/14

Group	Group or Sub-Group Reference Carrier	Domicile	LC/LCS	Single or Average Rating	Rating/LCS Outlook or Watch	Ratings Source (LCS= Average)	LCS Tiebreak Applied	LCS Resilience Indicator	AM Best		Fitch		Moody's		S&P		LUCID	
			Rating (LS) or Average Rating (LCS)						Individual Agency Rating/Outlooks/Watches									
Arch	Arch Reinsurance Ltd	BM	85.3	A+	Pos	LCS		R6	aa-	Sta	A+	Pos	A1	Sta	A+	Sta	ARCH/A1412A	
Argo	Argonaut Insurance Co	US	78.0	A	Neg	LCS	P/T	R1	a	Sta	NR		NR		A-	Sta	ARGO/A1344A	
Allied World	Allied World Assurance Co	BM	81.3	A	Pos	LCS		R6	a+	Sta	A+*	Sta	A2	Sta	A	Sta	AWAC/A2272A	
Amlin	Amlin AG	CH	82.0	A	Pos	LCS	N/T	R7	a+	Sta	A+	Sta	A2	Sta	A	Sta	AML/A1118A	
Aspen	Aspen Insurance UK Ltd	UK	80.0	A	Sta	LCS		R4	a	Sta	NR		A2	Sta	A	Sta	ASPE/A1435A	
Axis	AXIS Specialty Ltd	BM	84.0	A+	Sta	LCS		R4	aa-	Sta	A+*	Sta	A2	Sta	A+	Sta	AXIS/A2433A	
Beazley	Beazley Insurance Co	US	80.0	A	Sta	AMB		R4	a	Sta	NR		NR		NR		BEAZ/A4417A	
Canopus	Canopus US Insurance Inc	US	76.0	A-	Sta	AMB		R4	a-	Sta	NR		NR		NR		BREG/A4441A	
Catlin	Catlin Insurance Company Ltd	BM	80.0	A	Sta	LCS		R4	a	Sta	NR		NR		A	Sta	CATL/A1692A	
Endurance	Endurance Specialty Insurance	BM	78.7	A	Neg	LCS		R2	a	Sta	NR		A3	Sta	A	Sta	ENDU/A1958A	
HCC	Houston Casualty Company	US	90.0	AA	Neg	LCS	P/T	R1	aa	Sta	AA	Sta	A1	Sta	AA	Sta	HCCG/A3685A	
Hiscox	Hiscox Insurance Company	UK	82.7	A+	Neg	LCS		R2	a+	Sta	A+	Sta	NR		A	Sta	HISC/A2528A	
Ironshore	Ironshore Insurance Limited	BM	76.0	A-	Sta	LCS		R4	a	Sta	NR		Baa1	Sta	NR		IRON/A2757A	
Lancashire	Lancashire Insurance Co	BM	77.7	A-	Pos	LCS		R6	a	Pos	NR		A3	Sta	A-	Sta	LANC/A2448A	
Lloyd's	N/A	N/A	85.7	A+	Pos	LCS		R6	a+	Pos	AA-	Sta	NR		A+	Sta	N/A	
Maiden	Maiden Reinsurance Ltd**	BM	74.0	A-	Neg	LCS	P/T	R1	a-	Pos	NR		NR		BBB+	Neg	MAID/A1999A	
Markel	Markel Insurance Company	US	81.3	A	Pos	LCS		R6	a+	Sta	A	Sta	A2	Sta	A	Pos	MARK/A3716A	
Montpelier	Montpelier Reinsurance Ltd	BM	78.7	A	Neg	LCS		R2	a	Sta	A	Sta	NR		A-	Sta	MONT/A2090A	
Navigators	Navigators Insurance Co	US	82.0	A+	Neg	LCS	P/T	R1	a+	Sta	NR		NR		A	Sta	NAVI/A4468A	
Odyssey Re***	Odyssey Reinsurance Co	US	78.7	A	Neg	LCS		R2	a+	Sta	NR		A3	Sta	A-	Sta	FAIR/A1855A	
Platinum	Platinum Underwriters Bermuda Ltd	BM	78.0	A	Neg	LCS	P/T	R1	a	Sta	NR		NR		A-	Sta	PLAT/A2336A	
Renaissance	Renaissance Reinsurance Ltd	BM	86.7	AA-	Neg	LCS		R2	aa-	Sta	A*	Sta	A1	Sta	AA-	Sta	RENR/A1894A	
Sirius International***	Sirius International Insurance Corporation	SW	78.0	A-	Pos	LCS	N/T	R7	a	Sta	A	Sta	A3	Sta	A-	Sta	WHMO/A2259A	
Validus	Validus Reinsurance Ltd	BM	79.3	A	Neg	LCS		R3	a	Sta	A	Sta	A3	Pos	A	Sta	VALI/A1992A	
W R Berkley	Berkley Insurance Co	US	84.0	A+	Sta	LCS		R4	aa-	Sta	A*	Sta	A2	Sta	A+	Sta	WRBE/A1759A	

*Indicates an 'unsolicited' rating. For consistency reasons these are not used in LS or LCS calculations where one or more 'solicited' ratings exist. Please note this does not imply any view taken by Litmus as to the validity of 'unsolicited' ratings.

**Name change from 'Maiden Insurance Company' (May 2014)

***These are sub-groups of the ultimate parent group. See 'Cohort make-up' for description.

Ratings can and do change and we strongly advise readers to check with the relevant agency websites for the latest information and the relevant rating definitions.

Where a rating, outlook or review status has changed since the date noted above Litmus will be pleased to consider recalculating the LS, LCS and RI privately for any LRR reader on request. This is a complimentary service and we are pleased to offer this wherever practical, however it is subject to our other commitments and availability.

Litmus has not sought any endorsement from the rating agencies for the LS and LCS calculation methodology and results. Nor do we offer an endorsement of the ratings quoted here.

Please note that the Litmus Scores are not ratings; Litmus Analysis is not a rating agency.

The Litmus Commentary

Measuring Operating Performance; why neither RoEs or Combined Ratios fully cut it

The juxtaposition between capital adequacy and operating performance in ratings is often not well understood.

Simply put though, future operating performance (and the things seen as driving it; such as strategy, industry risk, management quality, market position, ERM etc.) are viewed by the agencies as key drivers of the future balance sheet and hence of future financial strength.

But this begs the question as to which metrics are looked at and what level of these constitutes a good, bad or indifferent performance?

For non-life re/insurers the agencies tend to focus on three metrics in particular:

- Return on Equity ('RoE'), or the equivalent of 'equity' in a mutual's balance sheet,
- The Combined Ratio,
- Return on Revenue ('RoR'), or the Operating Ratio (which is a different calculation around the same concept).

The third tends to have the least high profile but is, if anything, the most useful. Indeed in our discussions with S&P's analysts they tend to suggest that to them 'RoR' is the most influential of the three. That doesn't always seem apparent in S&P's rating reports or in its discussions with rated firms but that may be simply because the agency knows that rated companies and rating users are more focussed on RoEs and Combined Ratios.

RoR and the Operating Ratio are basically just two different approaches to the same thing; the degree of pre-tax 'profit margin' derived from the total of a non-life re/insurer's regular operations. To wit; net income (the underwriting result plus net investment income) as a function of revenues.

This helps address key weaknesses in both the Combined Ratio and RoE as fundamental performance benchmarks. The former, being purely an underwriting driven number, will tend to overstate the relative performance of carriers with shorter tail portfolios. Even with pretty anaemic investment return assumptions, any significant tail will move the overall 'break-even' point significantly above a 100% Combined Ratio. Since the pricing environments in longer tail lines reflect the aggregate market expectation of future investment income, 'rational' Combined Ratio expectations are inherently different to shorter tail business (although

longer tail target Combined Ratios also need to factor the greater risk of issues such as '**post-underwriting**' changes in the legal environment, emergence of previously unrecognised exposures or other potential causes of increases in expected claims).

RoE is of course partly a function of the degree of leverage the re/insurer is happy to have. Indeed an often overlooked issue is that a 'risk-adjusted' view of a re/insurer's operating performance should include both the degree of risk in its operations (underwriting and investment risk) **and** its degree of leverage (premium, reserve and investment).

Hence the difference between an RoE of 10% and one of 15% for different re/insurers from what appear to be similar underwriting and investment portfolios could simply be that the latter has greater leverage (and is hence the more risky).

RoR is calculated by S&P as follows:

$$\text{RoR} = \text{EBIT (excluding realised and unrealised gains)} / \text{Total Revenue}$$

Outcomes in the range between 5 and 15% are typical depending on business line.

Conversely the Operating Ratio is an adjustment of the Combined Ratio to also reflect investment income.

Actual RoR and Operating Ratio outcomes are therefore very different, not least in that the former is getting better as it increases whereas the latter is getting worse.

But the way to think of both, per the above, is as a percentile measure of the 'operational profit margin'; RoR directly and the Operating Ratio as an inverse measure.

So, for multi-line reinsurers for example, S&P's 'A' range expectations of RoR are typically between 10 to 15%. Whereas Fitch is looking for an Operating Ratio of around 90% for an 'A' rated reinsurer.

Why, therefore, look at the Combined Ratio and/or RoE at all?

Well, all analysts will certainly want to know how the underwriting operations in isolation are performing (and the trend and the variance around that). Indeed in addition to the Combined Ratio both Gross and Net Loss Ratios – ideally by accident year – should be a core part of a non-life re/insurer analysis (the former because of the intuition that the true quality of a 'book' is measured by gross performance).

Fitch's benchmark for the Combined Ratio of an 'A' rated reinsurer is 100% (which we see as somewhat higher than other agency expectations at the 'A' level).

RoE is critical since it's the lingua-franca of investors and those that manage investors' money. They need to measure the performance of investments (their average return and the volatility of that return) within and across industry segments and versus the investor's/fund's risk/return optimisation goals and their cost of invested capital.

RoE is the return they're getting on the money invested and can be calculated for any business (though the measure should really be 'risk-adjusted return on risk-adjusted equity', which is less often focussed or reported on).

Rating agencies care about RoE therefore in part because it is a guide to how favourably investors may view the business going forward and hence their willingness to provide future capital as required (and/or allow profits to be retained within the re/insurer to support future business).

Of the four main agencies Moody's has the most explicit published measure of risk adjusted analysis in this context. Moody's looks at both the RoE and its Sharpe Ratio (a measure of deviation from the mean*).

Moody's criteria for an 'A' range reinsurer includes that it should be achieving an RoE of 5% to 10% with a Sharpe Ratio for RoE of 200% to 300%* (although in practice we think Moody's RoE 'A' range RoE expectation is towards the higher end)

Defining clear volatility standards for operating performance is something we generally see as a gap in agency criteria so we applaud Moody's for this approach, though we'd argue that the Sharpe Ratio (or similar) applied to an RoR would be a better measure still.

**Moody's calculation is the 5 year RoE mean divided by the 5 year standard deviation of the RoE.*

Individual Agency Activity

Unless otherwise stated ratings and outlooks refer to the financial strength ratings (or issuer credit ratings for A.M. Best) of the named group's 'core' carriers (see [our Ratings Guide](#) for a fuller description). Reasons given for agency actions are our interpretation of the agencies' comments and criteria, not our own analytical views.

A.M. Best

Generali's 'a' rating was moved to 'stable' outlook from negative due to stabilisation of the Italian macroeconomic environment.

Carriers in the Western World pool were downgraded to 'a+' from 'aa-' reflecting weaker operating performance than the agency expects at the 'aa-' level. The rating action was not connected to the acquisition by Validus.

Fitch

Hannover Re was upgraded to 'AA-' from 'A+' due to reduced financial leverage and consistent earnings.

SCOR's 'A+' rating was moved to a 'positive' outlook due to improved profitability.

Swiss Re's 'A+' rating was also moved to a 'positive' outlook reflecting both reduced leverage and consistent earnings.

XL was upgraded to 'A+' due to both improved earnings and enhanced debt coverage ratios.

Moody's

No material action on LRR's coverage recently.

S&P

Amlin Europe NV (not yet considered a 'core' carrier for the group by S&P) saw its 'A-' rating outlook raised to 'positive' on enhanced profitability. Critically though the change also reflects the agency's increasing belief that the carrier is becoming 'core' to the group. This matters as S&P indicates the 'stand-alone' rating would be 'BBB+' and, since that is lower than the group level of 'A', its rating is capped at one notch below the group level unless it is viewed as 'core'.

Argo's outlook on its 'A-' was revised to 'stable' from 'negative' reflecting improved operating performance and ERM.

The outlook on AXA's 'A+' rating was moved to 'positive' reflecting enhanced capital adequacy.

Zurich's 'AA-' was also moved to a 'positive' outlook reflecting the agencies increasing comfort with the group's non-life reserves (which positively impacts its view of both prospective operating performance and capital adequacy).

Conversely Lloyd's outlook on its 'A+' was moved back to stable after more than 2 years at 'positive' reflecting S&P's expectation of materially lower profitability (driven by reinsurance market conditions).

About Litmus Analysis

Litmus is staffed by senior ex-rating agency personnel and provides a range of analytical services to the re/insurance markets and those that serve them.

Training Services	<p>Training dates for 2015—</p> <ul style="list-style-type: none"> Understanding and analysing non-life re/insurer financials and key ratios Wednesday 4th March Understanding the mathematics of reinsurance (for non-mathematicians) Principles Tuesday 21st April Tuesday 12th May Practice Wednesday 22nd April Wednesday 13th May <p>Other dates will be announced shortly. To be kept up to date or for further details, visit The Litmus Website or email us at papers@litmusanalysis.com.</p>
Advisory and Analytical Services	<p>Ratings Advisory Help and support in managing your relationship with the rating agencies, understanding criteria, the ratings process and the rating agency perspective.</p> <p>Analytical Services With an analytical mind, an eye for detail and years of experience, our team can help you and your clients through the complexity of different markets. We also assist in many areas of market security for brokers and cedants.</p> <p>For Ratings Advice, Market Security Assistance and Analytical Services, please contact Peter Hughes on peterhughes@litmusanalysis.com</p>
Online Services	<p>LUCID - The Litmus Unique Company Identification (LUCID) system – an extensive and growing searchable database of live and legacy market re/insurers and the groups they belong to.</p> <p>LitmusQ - The online credit-scoring tool for the insurance markets - your cedant and reinsurer financial health assistant.</p> <p>For details, for a demo or a free trial, contact info@litmusanalysis.com</p>

Copyright © 2014 by Litmus Analysis Limited. All rights reserved. The contents of this guide represent are intended purely for guidance. They are not statements of fact or recommendations to purchase, hold, or sell any securities or to make any investment decisions. No content or any part thereof may be modified, reproduced or distributed in any form by any means, without the prior written permission of Litmus. Litmus and its Directors do not guarantee the accuracy or completeness of the content. Litmus and its Directors are not responsible for any errors or omissions, regardless of the cause, for the results obtained from the use of the content, which is provided on an “as is” basis. In no event shall Litmus and its Directors be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs) in connection with any use of the content even if advised of the possibility of such damages. The content is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making business decisions. Litmus does not act as a fiduciary or an investment advisor. Litmus Analysis is not a rating agency.