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## Research Update:

# XLIT Ltd. And Operating Subsidiaries Ratings Raised On Core Group Status; Outlook Is Stable

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## Research Update:

# XLIT Ltd. And Operating Subsidiaries Ratings Raised On Core Group Status; Outlook Is Stable

## Overview

- XLIT Ltd. and its operating subsidiaries' (XL) commercial property/casualty re/insurance business is a key focus area for AXA SA (AXA).
- We assess XL as core to AXA in view of XL's strategic fit, diversification benefits to AXA, and prospective material contribution to the group; and expect that integration risks will be limited.
- As a result, we are raising our ratings on XLIT Ltd. to 'A' from 'A-' and its core operating subsidiaries to 'AA-' from 'A+'.
- The stable outlook reflects that on AXA.

## Rating Action

On Nov. 19, 2018, S&P Global Ratings raised its long-term issuer credit rating on Cayman Islands-based intermediate holding company XLIT Ltd. to 'A' from 'A-', and long-term financial strength and issuer credit ratings on core re/insurance subsidiaries to 'AA-' from 'A+' and highly strategic subsidiaries to 'A+' from 'A'. We affirmed our 'A+' financial and issuer credit ratings on XL Insurance Switzerland Ltd. S&P Global Ratings also raised its ratings on various debt and preferred issuances by XLIT Ltd. The outlook is stable for all entities. At the same time, S&P Global Ratings withdrew its ratings on XL Latin Re America Ltd, which has been merged into Catlin Re Switzerland Ltd.

## Rationale

The upgrade of XL reflects our assessment of the company as a core operation to the AXA group. The assessment takes into account XL's focus on commercial property/casualty (P/C) business, which is a key focus area for AXA; relatively limited exposure to financial market risks compared to AXA, providing diversification benefits; the prospective material profit contribution to the overall group helped by material revenue and cost synergies; and limited integration risks. XL will anchor AXA's large corporate non-life operations, with AXA contributing its existing dedicated operations to XL by 2019.

XL is a global re/insurance player with \$11.5 billion in shareholders' equity as of year-end 2017 and \$14.8 billion in gross premiums written (GPW), and its strong market position in specialty commercial lines and client focus on

mid/large corporates are complementary to AXA's subsidiary AXA Corporate Solutions (GPW of about \$2.5 billion), which focuses on large multinationals predominantly in Europe. The broader geographical reach and the opportunities it provides to serve a full product suite to a broad range of customers enhance XL's market presence in global programs, specialty lines, and reinsurance.

As is generally the case for large transactions, execution and integration risks exist, especially given that XL recently completed the full integration of Catlin Group Ltd., which it acquired in June 2015. However, we consider integration risks to be limited, because XL's management is in control of the combined AXA-XL corporate P/C business, and both groups have the objective of reducing XL's exposure to catastrophe risk. Furthermore, we believe that XL will be relatively easier to integrate into AXA's risk management framework because the Bermuda solvency regulation (applicable for XL) is closely aligned with Solvency II, easing the use of AXA group's internal model to calibrate the risk appetite of XL within AXA.

## **Outlook**

The stable outlook on XL mirrors that on AXA. The stable outlook reflects our view that, over the next two years, AXA's and XL's stand-alone profitability will continue to strengthen, AXA will further reduce its stake in AXA Equitable Holdings (AXA's U.S. life insurance business), and the integration of XL will proceed smoothly.

### **Downside scenario**

We could lower the ratings over the next two years if unexpected adverse market developments materially weakened AXA's capital adequacy prospects and depressed its stand-alone profitability. Setbacks in the integration of XL or a significant underperformance of XL's profit contribution could also put pressure on the ratings.

### **Upside scenario**

An upgrade of the AXA group is unlikely, in our view, and would hinge on a further improvement in the group's capitalization, combined with a more resilient business profile.

## **Related Criteria**

- 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

- 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
- Criteria - Insurance - General: Hybrid Capital Handbook: September 2008 Edition, Sept. 15, 2008

## Related Research

- AXA Group, Sept. 11, 2018
- AXA Group Ratings Affirmed On Capital Recovery Plan Following Acquisition Of XL Insurance Group; Outlook Stable, July 10, 2018
- AXA Insurance Group On CreditWatch Negative On Announcement Of Bid For XL Insurance Group, March 6, 2018
- XLIT Ltd. And Subsidiaries Ratings Affirmed On Announced Acquisition By AXA; Outlook Stable, March 6, 2018
- XLIT Ltd. And Its Operating Subsidiaries, Dec. 8, 2017

## Ratings List

Not Rated Action; Outlook Action

	To	From
XL Re Latin America Ltd.		
Issuer Credit Rating		
Local Currency	NR/--	A+/Stable/--
Financial Strength Rating		
Local Currency	NR/--	A+/Stable/--

Ratings Affirmed

XL Insurance Switzerland Ltd.		
Issuer Credit Rating		
Local Currency	A+/Stable/--	
Financial Strength Rating		
Local Currency	A+/Stable/--	

Upgraded

	To	From
XLIT Ltd.		
Issuer Credit Rating	A/Stable/--	A-/Stable/--

Catlin Insurance Co. Inc.  
 Catlin Specialty Insurance Co.  
 Catlin Insurance Co. Ltd.

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Issuer Credit Rating		
Local Currency	A+/Stable/--	A/Stable/--
Financial Strength Rating		
Local Currency	A+/Stable/--	A/Stable/--
Catlin Re Switzerland Ltd		
XL Specialty Insurance Co.		
XL Select Insurance Co.		
XL Reinsurance America Inc.		
XL Re Europe SE		
XL Insurance Co. of New York, Inc.		
XL Insurance America Inc.		
XL Catlin Insurance Company UK Ltd.		
XL Bermuda Ltd.		
Indian Harbor Insurance Co.		
Greenwich Insurance Co.		
Issuer Credit Rating		
Local Currency	AA-/Stable/--	A+/Stable/--
Catlin Re Switzerland Ltd		
XL Specialty Insurance Co.		
XL Select Insurance Co.		
XL Reinsurance America Inc.		
XL Re Ltd. - U.K.		
XL Re Europe SE		
XL Insurance Company SE		
XL Insurance Co. of New York, Inc.		
XL Insurance America Inc.		
XL Catlin Insurance Company UK Ltd.		
XL Bermuda Ltd.		
Indian Harbor Insurance Co.		
Greenwich Insurance Co.		
Financial Strength Rating		
Local Currency	AA-/Stable/--	A+/Stable/--
X.L. America, Inc.		
Issuer Credit Rating		
Local Currency	A/Stable/--	A-/Stable/--
XLIT Ltd.		
Senior Unsecured	A	A-
Subordinated	BBB+	BBB
Junior Subordinated	BBB+	BBB
Preferred Stock	BBB+	BBB
Preference Stock	BBB+	BBB
Catlin Insurance Co. Ltd.		
Preferred Stock	A-	BBB+

Upgraded; Ratings Affirmed

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	To	From
XL Insurance Company SE		
Issuer Credit Rating		
Local Currency	AA-/Stable/NR	A+/Stable/NR

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 [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column.

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