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Company Article

Fortis Corporate Insurance N.V.

FSR: A-/Negative/--

FSR Date: 03-Apr-09

Netherlands

CCR: A-/Negative/--

CCR Date: 03-Apr-09

Sector: Property/Casualty Insurance



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■ Rationale

On April 3, 2009, Standard & Poor's Rating Services affirmed its 'A-' counterparty credit and financial strength ratings on Netherlands-based commercial lines insurer Fortis Corporate Insurance N.V. (FCI). At the same time, Standard & Poor's removed these ratings from CreditWatch with developing implications, where they were placed on Oct. 6, 2008. The outlook is negative.

The affirmation reflects FCI's strong, albeit weakened, capitalization and good competitive position in its specialty markets. Offsetting these is pressure on operating performance, and uncertainty about the company's future ownership and strategy. Our ratings do not include any explicit uplift from the current owner, the Dutch state, due to the temporary nature of this ownership; the state intends to sell FCI in the near term.

Major rating factors:

- Strong, albeit weakened, capitalization underpinned by conservative claims reserving. Although substantial unrealized losses on corporate bonds weigh on the risk-adjusted capital adequacy, which is currently only at good levels. We expect earnings to restore capital in the short to medium term. Furthermore, we expect FCI's current owner to support FCI up to its sale date, in order to protect its franchise, and FCI to maintain the conservative non-life reserving practices of its former owner.
- Good competitive position. FCI's competitive position is good, due to its expertise in corporate risks, and good risk diversification. Offsetting factors are FCI's reliance on a small number of large brokers, and concentration of business in Benelux countries. Furthermore, Fortis group's dismantlement is expected to weigh on the company's business growth in the next two years, particularly in Belgium, but FCI's specialization should mitigate the impact on growth. Over the past five years, FCI achieved sound growth of gross premiums written (GPW), averaging 9.5%. In 2008, FCI's GPW grew 16% mostly thanks to the marine business, which grew 35%. FCI enjoys a diversified business mix and holds sound positions in most of its targeted business segments, markets, and clientele (clients with turnover of €10 million to €500 million).
- Pressure on underwriting performance. Underwriting performance in 2008 contrasted with past strong ratios. The net combined ratio increased to 102% in 2008 from 94% in 2007. This reflected the softening cycle and increased large claims frequency within FCI's retention. We regard FCI's

operating performance as very good through the cycle, due to a diversified risk portfolio, with the past five years net combined ratio averaging 94.5%. FCI also reported a sound return on equity (ROE) and return on revenues (ROR) over the past five years, reaching respectively 18.3% and 13.5%. In addition, FCI's re-underwriting started in second-quarter 2008 is expected to restore profitability at the expense of premium growth.

- Uncertainty on the company's future ownership and strategy. The Dutch government intends to return FCI to the private sector in the near term. Its future strategy will depend on its strategic fit with its new owner. The conditions of the sale and its timing represent another area of uncertainty. The disentanglement from Fortis Group adds constraints on FCI's operational management as the company used to benefit from support particularly in human resources, IT, and risk management. Nevertheless, we believe that FCI will be able to adjust to these challenges with the interim solutions put in place, such as service contracts and outsourcing with former entities of Fortis group.

■ Outlook

The negative outlook reflects pressure on FCI's operating performance, the impact of the disentanglement from Fortis on its business position, and uncertainty about the future strategy. We expect FCI's re-underwriting to slow down its exposure growth and to translate into improved operating performance in 2009 and 2010. Consequently, we expect GPW to decline 10% and the net combined ratio to recover to 100% in 2009. Underwriting earnings will suffer from higher reinsurance costs, and costs due to the restructuring. We expect ROE to recover to 15% and ROR to 10% in 2009. We also expect FCI to restore strong capital adequacy by 2010.

We may consider downgrading FCI if its sale process is prolonged, if it misses our profitability expectations in 2009, if capital adequacy further deteriorates, or if 2009 witnesses a weakening of FCI's competitive position. We could consider revising the outlook to stable if FCI successfully withstands conditions during its transformational year over 2009, while maintaining its business position, and if it significantly exceeds the profitability and capital adequacy expectations above.

Standard & Poor's will closely monitor developments in FCI's future ownership over the coming months and the potential impact on FCI's ratings.

■ Ratings List

Ratings Affirmed; CreditWatch/Outlook Action

	To	From
Fortis Corporate Insurance N.V.		
Counterparty Credit Rating		
Local Currency	A-/Negative/--	A-/Watch Dev/--
Financial Strength Rating		
Local Currency	A-/Negative	A-/Watch Dev

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