



## Fitch Affirms QBE Insurance Group's Ratings [Ratings](#)

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Fitch Ratings-Brisbane/Singapore-12 August 2009: Fitch Ratings has today affirmed the ratings of QBE Insurance Group Limited (QBE) and its main operating subsidiaries, as follows:

**QBE:**

- Long-term Issuer Default Rating at 'A';
- GBP175,000,000 senior unsecured debt rating at 'A-';
- GBP190,692,000 senior unsecured debt rating at 'A-';
- USD210,770,000 senior unsecured debt rating at 'A-'; and
- GBP300,000,000 perpetual preferred securities at 'BBB+'.

**QBE Insurance (Australia) Limited:**

- Insurer Financial Strength (IFS) rating at 'A+'.

**QBE Insurance (International) Ltd.:**

- IFS rating at 'A+'.

**QBE Insurance Corporation:**

- IFS rating at 'A+'.

**QBE Insurance (Europe) Limited:**

- IFS rating at 'A+'.

**QBE Hongkong & Shanghai Insurance Limited:**

- IFS rating at 'A+'.

**QBE Reinsurance (Europe) Limited:**

- IFS rating at 'A+'.

**QBE Reinsurance Corporation:**

- IFS rating at 'A+'.

**QBE Lenders Mortgage Insurance Limited (QBE LMI):**

- IFS rating at 'AA-' (AA minus).

The Outlook is Stable.

The ratings affirmations reflect QBE's continued strong operating performance, good level of diversification (both geographically and by product), and its solid albeit lower regulatory capital position.

To date, the group has weathered the economic crisis well. Net profit after tax was down just 3% during 2008 to AUD1,859m, although this contains some larger movements. Pressure on the FY08 profit resulted from a conservative reserving approach to financial and credit-related risk exposures and lower yields on investments, while positive items from the volatility included a gain on the forward purchase of US dollars and on the repurchase of AUD1bn of its own debt at a 30% discount to face value. Additionally, the FY08 results were supported by AUD665m in prior period reserve releases, which, as a 112% increase on the previous year will be somewhat offset by current year risk margins, but is a significant item and demonstrates how a strong and disciplined approach to underwriting and pricing continues to benefit the group. Although affected by AUD554m in unrealised losses on its equity portfolio, a low weighting of equities (5.6% at FYE08 of total investments including cash) and the group's low risk, absolute return approach has provided a level of protection not evident amongst some of the group's international peers.

Fitch notes that financial flexibility remains strong; QBE continues to generate good levels of capital internally, while capital initiatives in late 2008 (including AUD2.1bn of new equity) were well supported. While this enabled the group to continue their highly acquisitive strategy, at 31 December 2008 the groups' regulatory capital ratio was 1.7x the statutory minimum, down from 2.4x yoy. Increased levels of goodwill, particularly from acquired underwriting agencies, have contributed to the lower multiple; however Fitch believes that the risk of future impairments is somewhat mitigated by the company's proven track record, quality of due diligence and ability to quickly integrate new businesses.

Whilst the group's capital adequacy ratio and the probability of adequacy of QBE's reserves both weakened during 2008, Fitch would not want to see this trend to continue in 2009. Given that the group's capital position should be supported by continued strong earnings, good balance sheet management and that further falls in discounts rates are probably unlikely, the agency expects that these ratios should show at least a level of stability but more likely some improvement over the next year.

The rating for QBE LMI reflects sound capitalisation, a conservative investment mix and a robust risk management framework, which is underpinned by prudent underwriting policies. The company faces a challenging operating environment, as economic conditions have deteriorated in Australia, albeit to a lesser extent than in the US and UK, and claims have risen. Nevertheless, even in a very severe housing downturn, QBE LMI has significant capacity within its reserves, capital and reinsurance to absorb the impact. Furthermore, losses on the business acquired from US-based PMI Mortgage Insurance Co. are protected by a fully-funded contingent note. Access to support from the QBE Group is also an important rating consideration, and Fitch believes QBE appears both willing and capable of providing financial support to QBE LMI, if required.

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