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Research Update:

Chaucer Insurance Affirmed At 'A-', Off CreditWatch Following Completed Acquisition By China Re Group; Outlook Stable

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Overview

- On Feb. 14, 2019, China Re Group completed the acquisition of CIC DAC.
- We assess CIC DAC as highly strategic to China Re Group, reflecting the parent group's strong commitment of ongoing support and the insurer's very important role to the group's internationalization initiatives.
- We are affirming our 'A-' long-term financial strength and issuer credit ratings on CIC DAC and removing the ratings from CreditWatch developing.
- The stable outlook reflects our view that CIC DAC will maintain its highly strategic importance to China Re Group over the next two years.

Rating Action

On Feb. 25, 2019, S&P Global Ratings affirmed its 'A-' long-term financial strength and issuer credit ratings on Chaucer Insurance Co. DAC (CIC DAC). The outlook is stable. At the same time, we removed all the ratings from CreditWatch, where we had placed them with developing implications on April 2, 2018.

Rationale

The affirmation reflects our view that CIC DAC is highly strategic to its parent, China Reinsurance (Group) Corp. (China Re Group). We believe the Dublin-based insurer will benefit from a strong commitment of ongoing support from China Re Group, and that it plays a very important role in China Re Group's international expansion plan. We also expect CIC DAC to benefit from a high likelihood of extraordinary government support to China Re Group, in view of the government's broader internationalization initiatives. We therefore rate CIC DAC one notch lower than China Re Group's credit profile of 'a'.

On Feb. 22, 2019, The Hanover Insurance Group disclosed that it had completed the sale of CIC DAC to China Re Group on Feb. 14, 2019. Prior to this, China Re Group completed the acquisition of The Hanover Insurance International Holdings Ltd. (namely Chaucer, which includes two Syndicates--Syndicates 1084 and 1176) on Dec. 28, 2018. China Re Group's acquisition of Hanover Australia Holdco Pty Ltd. is pending regulatory approval, and is expected to be completed in the first quarter of 2019.

We expect CIC DAC to benefit from the strong commitment of ongoing support from China Re Group, particularly in areas of reinsurance arrangements, capital needs, and board representation. CIC DAC has placed an intragroup whole account quota share reinsurance agreement with the property and casualty reinsurance arm of China Re Group, China Property & Casualty Reinsurance Co. Ltd. China Re Group will also undertake the reinsurance obligations from the business CIC DAC has written since Jan. 1, 2018. In addition, China Re Group provides a net-worth maintenance agreement to CIC DAC, with maintained regulatory solvency ratio at 125%. The establishment of CIC DAC aims to provide flexibility to Chaucer in managing regulatory and operational risks associated with Brexit, and increase platform choice and flexibility for Chaucer's customers.

In our view, the acquisition is in line with China Re Group's strategy to facilitate greater business diversity and increase its international presence. Despite CIC DAC's short underwriting history, the insurer benefits from underwriting, claims, and other administrative services that Chaucer provides. We believe CIC DAC is backed by Chaucer's established track record dating back to 1922.

As in most mergers and acquisitions, we anticipate there could be some challenges to integration. That said, we believe the retention incentives for Chaucer employees may mitigate these challenges over time.

Outlook

The stable outlook on CIC DAC reflects the outlook on China Re Group. The outlook also reflects our expectation that the insurer will maintain its highly strategic importance to the group over the next two years.

Downside scenario

We may lower the ratings on CIC DAC if the insurer's importance to China Re Group diminishes. We consider this as unlikely over the next two years. We could also downgrade CIC DAC if we lower the ratings on China Re Group.

Upside scenario

We could raise the ratings on CIC DAC if we upgrade China Re Group. We may also upgrade CIC DAC if we assess that its strategic importance to the group has strengthened. We consider an upgrade to be unlikely over the next two years.

Related Criteria

- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015

- 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

Ratings List

Ratings Affirmed; Taken Off CreditWatch

	To	From
Chaucer Insurance Company, DAC		
Issuer Credit Rating		
Local Currency	A-/Stable/--	A-/Watch Dev/--
Financial Strength Rating		
Local Currency	A-/Stable/--	A-/Watch Dev/--

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