

### Best's Credit Rating Effective Date

October 30, 2020

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### Information

[Best's Credit Rating Methodology](#)

[Guide to Best's Credit Ratings](#)

[Market Segment Outlooks](#)

### Financial Data Presented

The financial data in this report reflects the most current data available to the Analytical Team at the time of the rating. Updates to the financial exhibits in this report are available here: [Best's Financial Report](#).

## UnipolRe Designated Activity Company

**AMB #:** 073263 | **AIIN#:** AA-1780054

**Ultimate Parent:** AMB # 086684 - Unipol Gruppo S.p.A.

### Best's Credit Ratings

#### Financial Strength Rating (FSR)

<h1>A-</h1> <h2>Excellent</h2>
Outlook: <b>Stable</b> Action: <b>Affirmed</b>

#### Issuer Credit Rating (ICR)

<h1>a-</h1> <h2>Excellent</h2>
Outlook: <b>Stable</b> Action: <b>Affirmed</b>

### Assessment Descriptors

Balance Sheet Strength	<b>Very Strong</b>
Operating Performance	<b>Adequate</b>
Business Profile	<b>Limited</b>
Enterprise Risk Management	<b>Appropriate</b>

## Rating Rationale

### Balance Sheet Strength: **Very Strong**

- UnipolRe DAC (UnipolRe) benefits from the strongest level of risk-adjusted capitalization at year-end 2019 as measured by Best's Capital Adequacy Ratio (BCAR). This is expected to be maintained over the medium term.
- Following significant reserve strengthening during 2019 as a result of a change in the UK 'Ogden' discount rate, reserves are now appropriately in line with a -0.25% rate.
- The company has a conservatively invested asset portfolio, limiting market risk exposure.

### Operating Performance: **Adequate**

- UnipolRe reported a loss of EUR 9.1 million in 2019, with an underwriting loss driven by an unforeseen change in the UK 'Ogden' rate negatively impacting the size of personal injury claims.
- Strong unrealised gains during 2019 largely offset the company's reported loss resulting in a very low level of capital erosion.
- Prospectively, the combined ratio is expected to stabilise under 100% driven by general rate hardening, along with stronger performance of motor business.
- Profitability is supported by income from a high-quality fixed-income portfolio.

### Business Profile: **Limited**

- UnipolRe is a relatively small player within the highly competitive global reinsurance market.
- Whilst the company has been able to diversify its geographical exposure through growth in new markets, it retains a high concentration in motor business.
- The company is able to leverage the expertise of its parent, UnipolSai Assicurazioni S.p.A. (UnipolSai), in telematics to support cedents with pricing and product development. Additionally, the company benefits from its association with the Unipol brand. UnipolSai is the market leader of motor insurance in Italy.

### Enterprise Risk Management: **Appropriate**

- UnipolRe's enterprise risk management (ERM) is considered appropriate for the size and complexity of its operations.
- The company has invested substantially in actuarial and catastrophe modeling expertise in order to manage its growing risk profile during a period of expansion.
- UnipolRe benefits from the risk management framework and expertise of UnipolSai.
- UnipolRe assesses its own risks within the Solvency II framework. Capital is managed to a tolerance well above the Solvency Capital Requirement (SCR) using the Standard Formula.

### Outlook

- UnipolRe's balance sheet strength is expected to remain very strong, supported by the strongest level of BCAR assessment. Despite the company's ambitious growth plans, the business profile assessment is expected to remain limited over the outlook horizon, until the company can develop greater scale and diversification. UnipolRe is expected to achieve profitable operating performance in line with its business plan, supporting the existing adequate operating performance assessment.

### Rating Drivers

- Positive actions in respect of the ratings are unlikely in the short to medium term. Establishment of a strong presence in its target markets, together with operating performances better than forecast and maintenance of the strongest level of risk-adjusted capitalisation, could lead to positive pressure on the ratings over the long term.
- Downward pressure on the ratings could occur if UnipolRe's operating performance was significantly below forecast.
- Downward pressure on the ratings could occur if there was a deterioration in the financial strength of UnipolRe's parent, UnipolSai.

## Key Financial Indicators

AM Best may reclassify company-reported data to reflect broader international reporting standards and increase global comparability.

### Best's Capital Adequacy Ratio (BCAR) Scores (%)

Confidence Level	95.0	99.0	99.5	99.6
BCAR Score	78.3	64.7	57.9	56.0

Source: Best's Capital Adequacy Ratio Model - Universal

Key Financial Indicators	2019 EUR (000)	2018 EUR (000)	2017 EUR (000)	2016 EUR (000)	2015 EUR (000)
Net Premiums Written:					
Life	294	163	315	181	311
Non-Life	255,847	178,917	82,599	37,369	22,594
Composite	256,141	179,080	82,914	37,550	22,905
Net Income	-9,088	4,720	-8,967	6,365	7,224
Total Assets	1,017,307	869,274	659,856	551,652	449,917
Total Capital and Surplus	465,625	465,756	362,235	271,380	161,122

Source: BestLink® - Best's Financial Suite

Key Financial Indicators & Ratios	2019	2018	2017	2016	2015	Weighted 5-Year Average
Profitability:						
Balance on Life Technical Account	468	959	2	1,676	983	...
Balance on Non-Life Technical Account	-16,594	605	-13,038	3,306	3,264	...
Net Income Return on Revenue (%)	-3.7	3.3	-13.4	18.9	30.4	...
Net Income Return on Capital and Surplus (%)	-2.0	1.1	-2.8	2.9	4.5	...
Non-Life Combined Ratio (%)	106.9	99.5	120.9	88.6	81.2	104.4
Net Investment Yield (%)	0.8	0.7	0.6	0.8	0.9	0.7
Leverage:						
Net Premiums Written to Capital and Surplus (%)	55.0	38.4	22.9	13.8	14.2	...

Source: BestLink® - Best's Financial Suite

## Credit Analysis

### Balance Sheet Strength

UnipolRe's balance sheet strength assessment at very strong is supported by the strongest level of risk adjusted capitalisation as measured by Bests' Capital Adequacy Ratio (BCAR), limited market risk due to a conservative asset portfolio, and good financial flexibility provided by the Unipol group. Offsetting factors in the assessment include its concentration of business by product and rapid growth prior to 2020 which has quickly brought new underwriting risk onto the balance sheet; although we note that the company's solvency has been maintained within its risk appetite at all times.

### Capitalisation

The BCAR scores presented under the "Best's Capital Adequacy Ratio Summary" section of this report are based on UnipolRe's year end 2019 audited financial statements.

At the beginning of 2015, when UnipolRe began operating according to its new business model, it was already well capitalised, with EUR 157 million of shareholders' funds at year-end 2014. Over its five years of operation as a third party reinsurer, UnipolRe's shareholders' funds have increased to EUR 473 million (at 30 June 2020), largely due to fresh capital provided by UnipolSai Assicurazioni S.p.A. (UnipolSai) in 2016, 2017 and 2018. The company is expected to maintain the strongest level of risk-adjusted capitalisation, in spite of the growth in underwriting risk over the projected period to 2022.

## Balance Sheet Strength (Continued...)

The capital support provided by UnipolSai provides UnipolRe with a good degree of financial flexibility. The commitment of the parent reflects the strategic importance of UnipolRe to the group as a source of geographical diversification outside of Italy. Given the reinsurer's strong level of solvency, further capital injections are not anticipated in the medium term.

<b>Capital Generation Analysis</b>	<b>2019 EUR (000)</b>	<b>2018 EUR (000)</b>	<b>2017 EUR (000)</b>	<b>2016 EUR (000)</b>	<b>2015 EUR (000)</b>
Beginning Capital and Surplus	465,756	362,235	271,380	161,122	156,836
Net Income	-9,088	4,720	-8,967	6,365	7,224
Net Unrealized Capital Gains (Losses)	8,957	-1,370	-203	4,449	-2,443
Net Change in Paid-In Capital and Surplus	...	100,000	100,000	100,000	...
Other Changes in Capital and Surplus	...	171	25	-556	-495
Net Change in Capital and Surplus	-131	103,521	90,855	110,258	4,286
Ending Capital and Surplus	465,625	465,756	362,235	271,380	161,122
Net Change in Capital and Surplus (%)	...	28.6	33.5	68.4	2.7

Source: BestLink® - Best's Financial Suite

<b>Liquidity Analysis (%)</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
Liquid Assets to Total Liabilities	126.1	145.9	145.3	107.5	70.2
Total Investments to Total Liabilities	127.0	147.2	147.1	109.3	72.0

Source: BestLink® - Best's Financial Suite

## Asset Liability Management - Investments

In line with the company's limited appetite for investment risk, UnipolRe's investments consist of highly rated corporate and government bonds (around 98% of total investments at year-end 2019) and cash (around 2%). The company also owns a share in DDOR Re, a Serbian reinsurer, representing around 1% of invested assets.

<b>Composition of Cash and Invested Assets</b>	<b>2019 EUR (000)</b>	<b>2018 EUR (000)</b>	<b>2017 EUR (000)</b>	<b>2016 EUR (000)</b>	<b>2015 EUR (000)</b>
Total Cash and Invested Assets	700,845	594,044	437,714	306,345	207,874
Cash (%)	2.3	1.4	25.0	26.6	15.8
Bonds (%)	97.0	97.7	73.8	71.7	81.7
Total Cash and Unaffiliated Invested Assets (%)	99.3	99.1	98.8	98.3	97.5
Investments in Affiliates (%)	0.7	0.9	1.2	1.7	2.5
Total Cash and Invested Assets (%)	100.0	100.0	100.0	100.0	100.0

Source: BestLink® - Best's Financial Suite

## Reserve Adequacy

UnipolRe's claims function sets case and incurred but not reported (IBNR) reserves based on data received from cedants and on benchmark data. These reserves are reviewed on a regular basis and emerging claims trends and developments are identified and monitored. The claims function is supported by the actuarial team, who carry out regular reviews of the benchmarks used by the claims team, calculate a best estimate and risk margin, and ensure uncertainty and sensitivity tests are carried out. External actuaries are used for a year-end independent review of the reserves.

Following changes during 2017 and 2019 to the discount rate associated with bodily injury claims in the UK, affecting motor business, UnipolRe has undertaken considerable reserve strengthening during these years. In 2017, the discount rate for UK motor personal injury claims was reduced to -0.75%, significantly increasing the quantum of claims, and therefore the size of UnipolRe's liabilities. The Ogden rate has been subsequently raised to -0.25% in August 2019. As a result of the rate changes, Unipol Re strengthened reserves by around EUR 10 million in 2017. During 2019, UnipolRe took further reserve strengthening to bring all reserves in line with a -0.25% Ogden rate, as part of a complete review of individual case reserves. Following these significant negative events, UnipolRe now holds

## Balance Sheet Strength (Continued...)

reserves in line with an Ogden rate which is expected to be fixed for five years and therefore is not expected to experience further reserve volatility from this source over the medium term.

## Holding Company Assessment

UnipolRe is a wholly owned subsidiary of the UnipolSai Assicurazioni SpA group, a leading Italian insurer. The majority share in UnipolSai Assicurazioni SpA is in turn held by Unipol Gruppo. The Unipol group has demonstrated strategic and financial support for UnipolRe. AM Best does not consider UnipolRe's holding company to be a material negative or positive factor in the rating assessment.

## Operating Performance

UnipolRe's operating performance is considered adequate. Both underwriting and investments results are expected to positively contribute to profitability over the medium-to-long term.

In 2019, UnipolRe reported a EUR 9.1 million net loss with a combined ratio of 106.9%, as calculated by AM Best. This was largely driven by an underwriting loss on the non-proportional casualty reinsurance line of EUR 25.5 million, itself driven by Ogden-related reserve strengthening. By contrast, the company produced a EUR 10.9 million technical profit from its non-proportional property book, from just EUR 32.0 million in gross premiums. We note that UnipolRe reported a EUR 9.0 positive movement in unrealised gains through its Other Comprehensive Income statement during the year with the result that there was a marginal total comprehensive loss of EUR 130,000 and very little capital impact during the year.

Ogden-related reserve strengthening has created volatility in UnipolRe's initial years of operating as a reinsurer writing open market business and the company's five-year return on equity stands at 0%. The change in the discount rate had an impact on all insurers operating in the UK motor market and highlighted the product concentration risk in UnipolRe's underwriting portfolio. However, the negative impact is viewed as an isolated issue and prospective performance is expected to improve from 2020. UnipolRe is expected to benefit both from a general rate hardening in the reinsurance industry, and from price increases specific to its loss-affected motor lines of business.

The company has demonstrated sustained improvement in its expense ratio with growth: the ratio has fallen from 42.0% in 2015 to 21.4% in 2019. This supports ongoing technical profitability.

UnipolRe writes some property catastrophe business, representing around 10% of gross premiums. The volatility of this business is limited by catastrophe excess of loss retrocession and the company has negligible exposure to US catastrophe. Management are taking a cautious approach to catastrophe exposure and are not expecting the company's net exposure to catastrophe events to increase over the forecast period.

UnipolRe has built out its actuarial and cat modelling team to reach six actuaries and two cat modelers. Technical partnership is a key part of the company's strategy with cedant visits to reinforce reserving, pricing and product development.

Investment income in 2019 amounted to EUR 6.4m (2018: EUR 3.7 million), boosted by gains on fixed income assets. The conservatively-allocated asset portfolio is expected to contribute steady returns, albeit at a moderate level.

<b>Financial Performance Summary</b>	<b>2019 EUR (000)</b>	<b>2018 EUR (000)</b>	<b>2017 EUR (000)</b>	<b>2016 EUR (000)</b>	<b>2015 EUR (000)</b>
Pre-Tax Income	-10,236	5,394	-10,290	7,197	7,342
Net Income after Non-Controlling Interests	-9,088	4,720	-8,967	6,365	7,224

Source: BestLink® - Best's Financial Suite

## Operating Performance (Continued...)

Operating and Performance Ratios (%)	2019	2018	2017	2016	2015
Overall Performance:					
Return on Assets	-1.0	0.6	-1.5	1.3	1.5
Return on Capital and Surplus	-2.0	1.1	-2.8	2.9	4.5
Non-Life Performance:					
Loss and LAE Ratio	85.4	77.2	91.2	50.6	39.3
Expense Ratio	21.4	22.3	29.7	38.0	42.0
Non-Life Combined Ratio	106.9	99.5	120.9	88.6	81.2

Source: BestLink® - Best's Financial Suite

## Business Profile

The limited business profile assessment reflects UnipolRe's status as a smaller reinsurer in a highly competitive international reinsurance market. The company's underwriting profile is concentrated in motor business, resulting in heightened exposure to volatility in this line, particularly with regard to legislative change. UnipolRe had pursued a high-growth strategy with growth in gross premiums of 35% in 2019 (2018: 96%). The 2020 renewal marked the end of this phase, with growth expected to be much lower going forward.

Unipol Re reported gross written premiums (GWP) of EUR 264 million in 2019, compared to EUR 195 million in 2018. The company is developing its business profile in line with plan within its target markets in Europe and the Middle East. Using existing client relationships UnipolRe wrote business in central and northern Europe as well as in Turkey and Israel. In 2019, the company's largest geographies were the UK, 40% of GWP, and Israel, 23%, with France representing 18% and Greece 6%. The company plans to continue to expand in markets with an appetite for telematic solutions applied to motor insurance. Its parent's expertise in this area represents an element of competitive advantage.

UnipolRe's business plan is focused on building relationships with cedants by providing pricing and product development services, involving close collaboration between underwriting and actuarial functions. The company has previously been able to rely on direct distribution for business but is now using brokers to drive its high level of growth.

In 2019, UnipolRe's business was predominantly motor third party liability (MTPL), representing 69% of gross premiums. This line of business is likely to remain important for the company's book for the foreseeable future, even as UnipolRe expands into other lines. At the heart of UnipolRe's strategy for MTPL business is the expectation of a growth in telematics, the use of which is increasing across Europe. UnipolRe maintained a selective approach during the 2020 renewal period, declining a considerable share of potential contracts based on pricing considerations. With the availability of potential business, the company is targeting continued growth, albeit at a lower level.

While the company's acceptance by the market is a positive sign and an indication of recognition of the Unipol brand, concentration in motor business and limited geographic diversification could adversely affect performance. AM Best is monitoring closely UnipolRe's progress in developing its business within its target markets.

Geographical Breakdown of Gross Premium Written	2019 EUR (000)	2018 EUR (000)	2017 EUR (000)	2016 EUR (000)	2015 EUR (000)
Other Europe	264,233	195,438	100,897	56,511	39,072
Total Europe	264,233	195,438	100,897	56,511	39,072
Total	264,233	195,438	100,897	56,511	39,072

Source: BestLink® - Best's Financial Suite

## Enterprise Risk Management

UnipolRe's level of enterprise risk management (ERM) is considered appropriate, with good risk-management capabilities that are aligned to its risk profile.

UnipolRe has an established risk management framework that is largely adopted from its parent company, and has been tested over many years. There are well-developed risk processes integrated within the business units in accordance with the group's risk management guidelines, providing uniformity and consistency in the adoption of policies, procedures and methodologies in terms of risks and controls.

## Enterprise Risk Management (Continued...)

The company's board of directors, who set the risk appetite and approve resource and capital allocation, have put in place an autonomous risk function to ensure that all classes of risk are appropriately evaluated and suitable limits, policies, procedures and measures are in place. Risk management capabilities were further strengthened since the adoption of Solvency II during 2016.

## Reinsurance Summary

UnipolRe retrocedes part of its business to external reinsurers, in line with an on-going assessment of capital utilisation and risk mitigation. In order to reduce the net impact of its peak peril, European windstorm, UnipolRe uses a EUR 65 million in excess of 35 million all perils treaty in combination with excess of loss treaties protecting the business from specific large cedents. We note that for a loss with a 1-in-250 return period, this arrangement could result in an approximately EUR 94 million 'spillover', however the programme provides considerable loss mitigation and we note that in our 'cat stress' scenario, UnipolRe's BCAR remains at the 'strongest' level.

The reinsurance panel is composed of reinsurers of good credit quality that specialise in retrocession. The risk management, underwriting and actuarial functions have established exposure triggers for natural catastrophe and motor excess of loss programmes.

## Financial Statements

	12/31/2019		12/31/2019
	EUR (000)	%	USD (000)
<b>Balance Sheet</b>			
Cash and Short Term Investments	16,231	1.6	18,179
Bonds	679,477	66.8	761,014
Other Invested Assets	5,137	0.5	5,753
<b>Total Cash and Invested Assets</b>	700,845	68.9	784,946
Reinsurers' Share of Reserves	104,850	10.3	117,432
Debtors / Amounts Receivable	120,701	11.9	135,185
Other Assets	90,911	8.9	101,820
<b>Total Assets</b>	1,017,307	100.0	1,139,384
Unearned Premiums	103,439	10.2	115,852
Non-Life - Outstanding Claims	413,266	40.6	462,858
Life - Outstanding Claims	1,352	0.1	1,514
Total Gross Technical Reserves	518,057	50.9	580,224
Other Liabilities	33,625	3.3	37,660
<b>Total Liabilities</b>	551,682	54.2	617,884
Capital Stock	300,635	29.6	336,711
Retained Earnings	123,569	12.1	138,397
Other Capital and Surplus	41,421	4.1	46,392
<b>Total Capital and Surplus</b>	465,625	45.8	521,500
<b>Total Liabilities and Surplus</b>	1,017,307	100.0	1,139,384

Source: BestLink® - Best's Financial Suite  
US \$ per Local Currency Unit 1.12 = 1 Euro (EUR)

	12/31/2019			12/31/2019
	Non-Life EUR (000)	Life EUR (000)	Other EUR (000)	Total EUR (000)
<b>Income Statement</b>				Total USD (000)
Gross Premiums Written	263,939	294	...	264,233
Net Premiums Earned	238,604	229	...	238,833
Net Investment Income	...	14	4,970	4,984
Realized capital gains / (losses)	...	...	1,409	1,409
Other Income	412	...	...	412
<b>Total Revenue</b>	239,016	243	6,379	245,638
Benefits and Claims	203,852	-327	...	203,525
Net Operating and Other Expense	51,758	102	489	52,349
Total Benefits, Claims and Expenses	255,610	-225	489	255,874
<b>Pre-Tax Income</b>	-16,594	468	5,890	-10,236
Income Taxes Incurred	...	...	...	-1,148
<b>Net Income before Non-Controlling Interests</b>	...	...	...	-9,088
<b>Net Income/(loss)</b>	...	...	...	-9,088

Source: BestLink® - Best's Financial Suite  
US \$ per Local Currency Unit 1.12 = 1 Euro (EUR)

## Related Methodology and Criteria

[Best's Credit Rating Methodology, 11/13/2020](#)

[Catastrophe Analysis in A.M. Best Ratings, 10/13/2017](#)



[Available Capital & Holding Company Analysis, 10/13/2017](#)

[Scoring and Assessing Innovation, 03/05/2020](#)

[Understanding Universal BCAR, 06/11/2020](#)

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