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Research Update:

Germany-Based Specialty Insurer Inter Hannover Downgraded To 'A+' On Change Of Group Structure; Outlook Stable

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Overview

- Inter Hannover will become a joint venture between HDI Global SE (a core company of Talanx Primary Insurance Group; TPG) and Hannover Re SE, and will be part of HDI Global SE's industrial insurance strategy.
- We regard Inter Hannover prospectively as a core subsidiary of TPG and an important pillar of TPG's industrial lines operations.
- We rate Talanx's primary core operations one notch below our rating on the Hannover Re group.
- We are therefore lowering our insurer financial strength and issuer credit ratings on Inter Hannover to 'A+' from 'AA-'.
- The stable outlook reflects the outlook on TPG's core operations.

Rating Action

On May 18, 2018, S&P Global Ratings lowered its long-term insurer financial strength and issuer credit ratings on Germany-based specialty insurer International Insurance Co. of Hannover SE (Inter Hannover) to 'A+' from 'AA-'. The outlook is stable.

Rationale

Our downgrade reflects our prospective view of Inter Hannover's changed group status, being core to TPG's operations.

On May 11, 2018, Hannover Re published a joint press release with Talanx and HDI Global SE, announcing a joint venture in the global primary specialty business between Hannover Re and HDI Global SE. The nucleus of the joint venture will be Hannover Re's primary insurance company, Inter Hannover, which will merge its activities with HDI Global SE's specialty operations.

Although Hannover Re (AA-/Stable) is majority owned by Talanx AG (A-/Stable), the intermediate holding company of TPG (A+/Stable), we recognize its operational independence and therefore rate Hannover Re one notch higher than TPG's core operations. This mainly reflects Hannover Re's strong minority shareholding structure, its de-linked business model from TPG, and its independent funding capabilities.

The starting point for the joint venture will be HDI Global SE's acquisition of about 50.2% shares of Inter Hannover, with a total price of about €100 million. Hannover Re will maintain about 49.8% of the company. Once the transaction has taken place, Inter Hannover will be rebranded to HDI Global Specialty SE, aligning its brand to the HDI group. We understand that the new company will start its operations at the beginning of 2019.

Our revised view of Inter Hannover's group status to TPG is based on our understanding that the joint venture will operate as the dedicated carrier for specialty insurance under the strategy of TPG's industrial lines business. Moreover, with gross premium volume of more than €1 billion, the joint venture will make TPG a sizable competitor in the global specialty market and will be a good platform for further growth aligned with the group's target.

Outlook

Our ratings and outlook on Inter Hannover will move in tandem with those on TPG's core operations, since we view it as a core company. The stable outlook therefore reflects the outlook on TPG. We expect that TPG will maintain its competitive strength over the next 12-24 months, based on its leading position in industrial insurance and its strong business and regional diversification. We also consider that TPG will maintain at least very strong capital and earnings without any major volatility, despite potential losses from natural catastrophe events or mergers and acquisitions.

Downside scenario

We would consider taking a negative rating action on Inter Hannover if we no longer considered the company as core to TPG. This would be the case if the company consistently underperformed the group's earnings expectations, or if the group changed its strategic view of the global specialty business. Additionally, a downgrade would follow the same action on TPG. This could occur if its capital and earnings sustainably weakened to lower than very strong levels, based on an increase in capital needs that was higher than expected or markedly lower earnings than we currently anticipate in our base-case scenario.

Upside scenario

An upgrade would follow the same action on TPG. We view a positive rating action as a remote possibility over the next 24 months. However, this could occur if TPG further significantly diversifies its earnings base by geography in its industrial and retail insurance business and if it successfully turns around its German retail business.

Related Criteria

- General Criteria: Principles For Rating Debt Issues Based On Imputed Promises, Dec. 19, 2014
- Criteria - Insurance - Property/Casualty: Assessing Property/Casualty Insurers' Loss Reserves, Nov. 26, 2013
- 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
- General Criteria: Criteria Clarification On Hybrid Capital Step-Ups, Call Options, And Replacement Provisions, Oct. 22, 2012
- Criteria - Insurance - General: A New Level Of Enterprise Risk Management Analysis: Methodology For Assessing Insurers' Economic Capital Models, Jan. 24, 2011
- Criteria - Insurance - General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010
- Criteria - Financial Institutions - General: Methodology: Hybrid Capital Issue Features: Update On Dividend Stoppers, Look-Backs, And Pushers, Feb. 10, 2010
- Criteria - Financial Institutions - Banks: Assumptions: Clarification Of The Equity Content Categories Used For Bank And Insurance Hybrid Instruments With Restricted Ability To Defer Payments, Feb. 9, 2010
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Criteria - Insurance - General: Hybrid Capital Handbook: September 2008 Edition, Sept. 15, 2008

Ratings List

Downgraded

	To	From
International Insurance Co. of Hannover SE		
Issuer Credit Rating	A+/Stable/--	AA-/Stable/--
Financial Strength Rating	A+/Stable/--	AA-/Stable/--

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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 for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.

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