

Research Update:

Factory Mutual Insurance Co. And Subsidiaries Ratings Affirmed; Outlook Stable

October 4, 2019

Overview

- FM Global is an industry leader in engineering-based property underwriting and research.
- We are affirming our ratings on Factory Mutual Insurance Co. and its core subsidiaries.
- The stable outlook is based on FM Global's leading market position in the commercial property market and highly supportive capital base.

Rating Action

On Oct. 04, 2019, S&P Global Ratings affirmed its 'A+' long-term issuer credit and financial strength ratings on Factory Mutual Insurance Co. and its core subsidiaries (together, FM Global). The outlook is stable.

Outlook

The stable outlook reflects our view that the group has a very strong competitive position supported by its highly regarded reputation for assessing risk to prevent and mitigate loss and leading market presence in the large commercial property market. FM Global's extremely strong capital adequacy and generally strong operating results also allow it to absorb catastrophe losses and financial market volatility. Given FM Global's monoline focus on large commercial property, the potential for elevated catastrophe losses is always present, and such losses have resulted in material underperformance in the past two years--an unusual occurrence for the group. But we expect a combined ratio of 92%-95% in the next two years, assuming a more normal level of catastrophe losses.

Downside scenario

We could lower the ratings in the next 12-24 months if FM Global's operating performance comes in substantially below our expectations, and we believe that a systemic change has occurred that's weakened its competitive position. We may also lower our ratings if, during the next two

PRIMARY CREDIT ANALYST

John Iten
Hightstown
(1) 212-438-1757
john.iten
@spglobal.com

SECONDARY CONTACTS

Patricia A Kwan
New York
(1) 212-438-6256
patricia.kwan
@spglobal.com

CHRISTOPHER J FLYNN

New York
+ 1 (212) 438 0224
christopher.flynn
@spglobal.com

Research Update: Factory Mutual Insurance Co. And Subsidiaries Ratings Affirmed; Outlook Stable

years, FM Global's capital redundancy per our proprietary risk-adjusted capital model falls and persists below the 'AAA' confidence level due to significant underwriting losses and/or equity-market volatility.

Upside scenario

It is unlikely that we will raise the ratings in the next two years because of FM Global's exposure to capital and earnings volatility from its high equity concentration and narrow focus on the commercial property business.

Rationale

Our affirmations follow the implementation of our revised "Group Rating Methodology" and "Insurers Rating Methodology" criteria published on July 1, 2019.

FM Global's market-leading reputation for assessing and mitigating risk through its engineering platform has led to its long-standing position as the global leader in commercial property insurance. We view this expertise as a competitive advantage over peers, illustrated by its high client retention and generally favorable long-term underwriting performance. Slightly offsetting these aforementioned strengths is the company's monoline business focus and the potential for significant earnings volatility driven by the inherent risks in its business concentration.

FM Global has reported strong 10-year (2009-2018) operating results based on an average combined ratio of 94.6%. More-recent performance was significantly affected by catastrophe events in 2017 and 2018, which pushed its five-year (2014-2018) average combined ratio above 100%, highlighting the volatility inherent in its business concentration. Despite 2017-2018's lagging underwriting performance, the company reported better-than-average underwriting results through August 2019 and we expect a combined ratio in the 92%-95% range on a long-term basis.

Supported by its status as a mutual insurer and its historically strong earnings profile, FM Global has built capital adequacy well into the 'AAA' range per our proprietary capital model. Although the company is supported by a substantial capital base, its high catastrophe exposure and large proportion of equities in its investment portfolio put the group at more risk of significant earnings and capital fluctuations than other catastrophe-exposed writers.

Ratings Score Snapshot

Research Update: Factory Mutual Insurance Co. And Subsidiaries Ratings Affirmed; Outlook Stable

Business Risk Profile	Very Strong
Competitive position	Very Strong
IICRA	Intermediate risk
Financial Risk Profile	Strong
Capital and earnings	Excellent
Risk exposure	High
Funding structure	Neutral
Anchor*	a+
Modifiers	
Governance	Neutral
Liquidity	Exceptional
Comparable ratings analysis	0
Financial Strength Rating	A+

* We assigned the lower of a 'aa-/a+' anchor, reflecting our view of the BRP as being on the lower end of the very strong assessment due to the company's narrow focus on commercial property.

Related Criteria

- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Guarantee Criteria, Oct. 21, 2016
- 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

Factory Mutual Insurance Co.

FM Insurance Europe S A

F.M. Insurance Co. Ltd.

Affiliated FM Insurance Co.

Issuer Credit Rating	
Local Currency	A+/Stable/--
Financial Strength Rating	
Local Currency	A+/Stable/--

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors,

Research Update: Factory Mutual Insurance Co. And Subsidiaries Ratings Affirmed; Outlook Stable

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.

Copyright © 2019 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.