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Research Update:

Outlook On QBE Insurance Group And Core Operating Entities Revised To Stable From Positive; Ratings Affirmed

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(Editor's Note: In this research update, originally published on Jan. 30, 2018, we inadvertently omitted a number of ratings on predominantly North America-based entities from the ratings list. A corrected version follows.)

Overview

- Remediation and associated benefits to QBE group have progressed to a lesser extent than we previously anticipated, particularly in its North American operations.
- We are revising our outlook on QBE and its core and highly strategically important operating entities to stable from positive.
- We are affirming our 'A+' issuer credit ratings and financial strength ratings on QBE's core operating companies and 'A-' issuer credit ratings on QBE Insurance Group Ltd.
- The stable outlook reflects our expectation that QBE's headline and underlying earnings will rebound in fiscals 2018 and 2019 reflecting lower attritional claims, an improved expense base, and progressive benefits flowing from remediation.

Rating Action

On Jan. 30, 2018, S&P Global Ratings revised to stable from positive its outlook on global multiline insurer QBE Insurance Group Ltd. (QBE) and the group's core and highly strategically important operating entities (see ratings list). At the same time, we affirmed our 'A+' issuer credit ratings and financial strength ratings on QBE's core operating companies and 'A-' issuer credit ratings on QBE Insurance Group Ltd.

Rationale

The revision of the outlook to stable from positive reflects our view that the QBE group is unlikely to realize the material benefits of remediation activities across the group in the near term. Further claims management and portfolio remediation is required in the group's underperforming businesses in North America and parts of Asia-Pacific and Latin America. In particular, QBE has been undertaking substantial remediation in its North American operations

over a number of years and we had anticipated the benefits of such actions would meaningfully enhance group performance. However, QBE recently announced it had written down the carrying value of its North American operations' goodwill by US\$700 million reflecting its expectations of a higher long-term combined ratio. While it announced further initiatives to strengthen risk selection, pricing, and claims, we believe the group will only progressively realize the benefits.

The ratings remain underpinned principally by QBE's very strong competitive position spanning developed and developing property casualty markets. The insurer supplements its solid underwriting and risk management capabilities with high quality capital, providing solid cover of risks incurred. It also has diversified and well-structured reinsurance cover.

Outlook

The outlook is stable. We anticipate QBE's headline and underlying earnings will rebound in fiscals 2018 and 2019 reflecting lower attritional claims, an improved expense base, and progressive benefits flowing from remediation. We also anticipate reserve stability during the period and effective reinsurance cover for large and weather-related risks, and that the insurer will maintain its very strong capital adequacy.

Upside scenario

A higher credit rating would reflect a strengthening net combined operating ratio outcome, indicatively at or below 95%, and reserve stability. We would consider whether the group's operating performance was repeatable and resilient in the context of market conditions, and how it compares with its global peers.

Downside scenario

While unlikely, the ratings could come under pressure from a significant deterioration in underlying earnings or reserve development that may arise due to a change in risk appetite, inappropriate pricing, or poor reinsurance protection. A material contraction in capital adequacy could also lead to a downgrade.

Related Criteria

- Criteria - Insurance - General: Insurer Hybrid Capital Instruments With Nonviability Contingent Capital (NVCC) Features, July 24, 2014
- 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: 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
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Criteria - Insurance - General: Hybrid Capital Handbook: September 2008 Edition, Sept. 15, 2008

Ratings List

Ratings Affirmed; CreditWatch/Outlook Action

	To	From
QBE Insurance Group Ltd. QBE European Operations PLC Counterparty Credit Rating	A-/Stable/--	A-/Positive/--

Equator Reinsurances Ltd. Stonington Insurance Co. QBE Specialty Insurance Co. QBE Reinsurance Corp. QBE Insurance Corp. QBE Insurance (International) Ltd. QBE Insurance (Europe) Ltd. North Pointe Insurance Co. National Farmers Union Property & Casualty Co. NAU Country Insurance Co. Counterparty Credit Rating Local Currency	A+/Stable/--	A+/Positive/--
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Equator Reinsurances Ltd.
Stonington Insurance Co.
QBE Specialty Insurance Co.
QBE Reinsurance Corp.
QBE Re (Europe) Ltd.

QBE Insurance Corp.		
QBE Insurance (International) Ltd.		
QBE Insurance (Europe) Ltd.		
QBE Insurance (Australia) Ltd. (NZ branch)		
QBE Insurance (Australia) Ltd.		
North Pointe Insurance Co.		
National Farmers Union Property & Casualty Co.		
NAU Country Insurance Co.		
Financial Strength Rating		
Local Currency	A+/Stable/--	A+/Positive/--
QBE General Insurance (Hong Kong) Ltd.		
QBE Insurance (Singapore) Pte. Ltd.		
Counterparty Credit Rating		
Local Currency	A/Stable/--	A/Positive/--
Financial Strength Rating		
Local Currency	A/Stable/--	A/Positive/--
QBE Insurance (Australia) Ltd.		
Counterparty Credit Rating	A+/Stable/--	A+/Positive/--
General Casualty Insurance Co.		
Unigard Insurance Co.		
Unigard Indemnity Co.		
Southern Pilot Insurance Co.		
Southern Fire & Casualty Co.		
Regent Insurance Co.		
Praetorian Insurance Co.		
Hoosier Insurance Co.		
General Casualty Co of Wisconsin		
Financial Strength Rating		
Local Currency	A+/Stable/--	A+/Positive/--
Praetorian Insurance Co.		
Counterparty Credit Rating		
Local Currency	A+/Stable/--	A+/Positive/--
QBE Hongkong & Shanghai Insurance Ltd.		
Counterparty Credit Rating		
Local Currency	A/Stable/--	A/Positive/--
Financial Strength Rating		
Local Currency	A/Stable/--	A/Positive/--
Ratings Affirmed		
QBE Lenders' Mortgage Insurance Ltd.		
Counterparty Credit Rating		
Local Currency	A+/Stable/--	
Financial Strength Rating		

Local Currency	A+/Stable/--
QBE Mortgage Insurance (Asia) Ltd. Counterparty Credit Rating	
Local Currency	A/Stable/--
Financial Strength Rating	
Local Currency	A/Stable/--
QBE Underwriting - Syndicate 0386 QBE Underwriting - Syndicate 2999 Lloyds Syndicate Assessment	
Local Currency	5/Stable
Stonington Insurance Co. Analytical Factors	
Local Currency	a-
QBE Insurance Group Ltd. Senior Unsecured	A-
Subordinated	BBB-
QBE Capital Funding II LP Subordinated	BBB
QBE Capital Funding III Ltd. Subordinated	BBB
QBE Capital Funding IV Ltd. Subordinated	BBB
QBE Capital Funding LP Subordinated	BBB

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