FitchRatings

Insurance

Europe

One Re Ltd

Full Rating Report

Rating

Insurer Financial Strength Rating	BBB-

Outlook

Insurer Financial Strength Rating	Stable

Financial Data

One Re Ltd

(USDm)	2016	2017
Total equity	38.4	40.8
Total debt and hybrids	-	-
Total assets	41.7	48.8
Gross written premiums	2.5	6.4
Net income	-1.9	2.4

As of 31 December

Related Research

Global Reinsurance Guide 2018 (September 2017)

2018 Outlook: Global Reinsurance (December 2017)

Global Reinsurance: Significant Catastrophe Losses; Modest Rate Rises (January 2018)

Reinsurance (Global) – Sector Credit Factors (February 2018)

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Key Rating Drivers

Small, Specialised, Start-up Reinsurer: One Re Ltd is a small, specialised London-based reinsurer underwriting short-tail non-life risks in Africa. It began underwriting in 2015 following approval of its licence in the UK. The company reported gross written premiums (GWP) of USD6.4 million, shareholders' funds of USD41 million and total assets (excluding reinsurance assets) of USD49 million at end-2017.

Strong Regulatory Environment: Fitch Ratings views the UK's strong regulatory environment as positive for One Re's rating. The company's experienced management team has a strong record of underwriting business in African insurance markets, which benefits One Re's rating.

Strong Capitalisation: One Re's regulatory solvency is strong, with a Solvency II (S2) ratio (including a voluntary capital add-on) of 228% at end-2017. Fitch expects capitalisation to decline as the company expands its business, but to remain strong and a rating positive. One Re follows a capital policy of maintaining its coverage of solvency capital requirements (SCR), including the capital add-on, of at least 125%. Fitch also expects net written premiums (NWP) to equity not to exceed 2x (2017: 0.1x).

Profitability Likely to Improve: One Re's premium income was insufficient to cover costs in 2017. Its NWP of USD3.3 million did not cover administrative expenses of USD3.8 million. Despite this low revenue base, One Re swung to a net profit of USD2.4 million from a loss of USD1.9 million in 2016 driven by investment gains and favourable FX developments. Fitch expects One Re to significantly increase its premium income by end-2018, allowing the company to remain profitable.

Moderate Investment Risk: Fitch regards One Re's investment risk as moderate. Its investment portfolio is dominated by two real estate investments in the City of London (61% of invested assets at end-2017) and cash (15%). The rest of its portfolio consists of a mix of short-term US dollar-denominated corporate investment-grade bonds, short-duration high-yield bonds and money market funds. Overall, the portfolio has an average rating of 'BBB'.

Limited FX Risk: One Re limits exchange rate (FX) risk by predominantly underwriting US dollar-denominated policies and investing in assets backing insurance liabilities denominated in US dollars. Its head office's operating expenses are denominated in UK pounds, creating some FX risk, but this is partly offset by the sterling income-generating potential of its London real estate investments.

Rating Sensitivities

Viable Business Model, Maintained Capitalisation: Profitable growth over time, demonstrating a proven business model, could lead to an upgrade, provided the company maintains strong capitalisation, with SCR (including the capital add-on) coverage of at least 125% and NWP to equity below 2x.

Unsustainable Business Model, Weaker Capitalisation: The rating would be downgraded if One Re's business model proves to be unsustainable, as evidenced by material losses in 2018, combined with Fitch expectations that losses would continue beyond 2018. Significantly weaker-than-forecast premium growth, SCR (including the capital add-on) coverage below 125% or NWP to equity above 2x could also lead to a downgrade.

Business Profile

Small Size and Start-Up Nature Limit Rating Level

- Start-up reinsurer focused on African market
- Distribution network to expand
- Experienced management team
- Strong regulatory environment

Start-up Reinsurer Focused on African Market

One Re was established in 2012 and started underwriting short-tail non-life risks in sub-Saharan Africa on 1 January 2015 following approval of its licence in the UK.

One Re's underwriting strategy targets a portfolio mix of 50% fire and engineering (predominantly property risks) and 50% of all other lines, but at end-2017 portfolio diversification was still low, with fire and engineering accounting for 83% of GWP.

The company's geographical diversification is limited: although One Re had underwritten risks covering 34 countries at end-2017 (end-2016: 27), the top four (Namibia, Kenya, South Africa and Mozambique) accounted for 70% of total GWP.

Distribution Network to Expand

One Re underwrites through reinsurance brokers in developed African insurance markets, such as South Africa, Kenya and Mauritius, and to a lesser extent through London-based reinsurance brokers. A portion of One Re's treaty business is underwritten directly via ceding clients.

One Re is establishing a network of local registered branch offices to maintain the benefits of local expertise, local culture and acceptance as an African reinsurance participant. One Re opened its first branch office in 2017 in Libreville (Gabon). Further branch offices are planned either in Nairobi (Kenya) or Dar es Salaam (Tanzania), in Lagos (Nigeria) and potentially also in Johannesburg (South Africa).

All of the five countries mentioned above have regulatory requirements ensuring that reinsurance coverage is provided predominantly by local market participants, and have passporting rights that enable licensed reinsurers to operate in neighbouring countries.

In 1Q18 One Re started One Risk Africa, a Lloyd's-based Managing General Agent (MGA) sponsored by Sirius International Corporation (IFS: A-/Rating Watch Negative). This MGA underwrites South African business for Sirius, who shares the risk with One Re via a 50% quota-share reinsurance agreement.

Experienced Management Team

One Re has an experienced management team. In particular CEO Andrew Lewis, who is also 50% shareholder in the parent company, has strong knowledge of African insurance markets through his 20-year track record in the ownership, management and operation of insurance orginisations in Mozambique, Angola, Ghana, South Africa and Namibia.

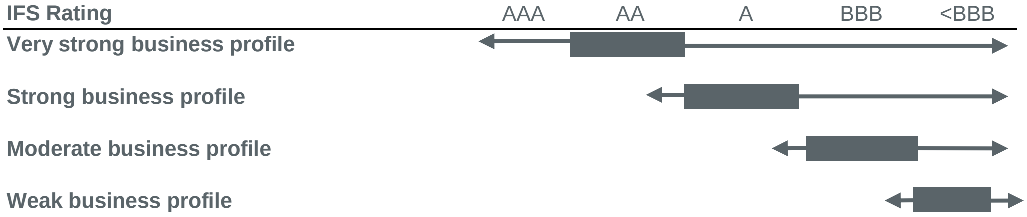
Strong Regulatory Environment

One Re is regulated by UK authorities including the Prudential Regulation Authority (PRA). Fitch views the strong regulatory environment in the UK as positive for One Re's rating. Fitch believes that One Re's credit profile benefits from the company having to comply with S2 regulation and the PRA's additional requirements regarding risk reporting and management.

Related Criteria

Insurance Rating Criteria (November 2017)

Ratings Range Based on Business Profile



Source: Fitch

Ownership Is Neutral to Rating

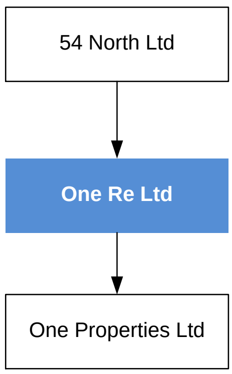
One Re is privately owned by 54 North Ltd, a vehicle created to provide funds to One Re. The shareholders of 54 North are private investors (Andrew and Robert Lewis) and One Re is the only asset of 54 North Ltd, leading to a high willingness of the latter to support the former if needed. One Re also maintains a recovery and resolution plan that includes asset disposals, reductions in the risk profile of the business or restructuring of liabilities to ensure that it will continue to be able to meet regulatory requirements and pay policyholder liabilities. Andrew Lewis, 50% shareholder in 54 North Ltd, has day-to-day involvement in the activities of One Re through his role as the CEO of One Re.

Corporate Governance and Management

Corporate governance and management are adequate and neutral to the rating, in our view.

One Re's board consists of five members of whom two are executives. The executive directors of One Re have broad experience in the financial services and insurance industries.

Group Structure



Source: One Re

Industry Profile and Operating Environment

Sovereign and Country Related Constraints

Fitch rates the sovereign obligations of the United Kingdom at ‘AA’ with a Negative Outlook, and the Country Ceiling is at ‘AAA’.

The Country Ceiling expresses the maximum limit for foreign-currency ratings of most but not all issuers in a given country. Given these very high levels, the ratings of UK insurance organisations and other corporate issuers are not likely to be constrained by sovereign or macroeconomic risks, and in the specific case of One Re no constraints are biting.

Significant Catastrophe Losses; Modest Rate Rises

The devastation caused by Hurricanes Harvey, Irma and Maria, coupled with the significant losses from the earthquakes in Mexico and wildfires in California, generated (re)insurance industry losses in excess of USD130 billion. Fitch expects that these losses will push the global reinsurance sector to a significant underwriting loss for the year, with a forecast 2017 aggregate combined ratio of 109.7% for Fitch’s universe of monitored reinsurers. This is the weakest underwriting result since the 112.9% posted in 2011 when the (re)insurance industry experienced record insured losses.

Property catastrophe reinsurance rates increased in 2017 for the first time since 2013 but only modestly, with pricing still approximately 30% below 2013 levels, according to JLT Re. As well as being hit by losses in the property catastrophe business, casualty rates have also been affected by sector-specific issues, including deteriorating accident-year results, reduced reserve releases and issues such as Ogden reform in the UK and wildfire-related casualty losses in the US.

The reinsurance industry holds significant excess capital and has been able to absorb the losses from recent catastrophe activity without a significant deterioration in capital. Losses were spread fairly evenly across the three major hurricanes, and hence there was higher primary retention and a lower impact on reinsurers.

The insurance-linked securities market’s appetite to invest more capital into reinsurance and retrocession programmes is a key driver of future risk-adjusted rate movements. The amount of capital that remains ‘trapped’ by lengthy claims settlements or protracted litigation, particularly in relation to Hurricane Harvey flooding losses, will also influence the development in the rating environment over the next renewal periods.

The majority of reinsurer rating outlooks remain stable. However, we have revised the ratings of XL Group Ltd and Axis Capital Holdings Ltd to Negative, reflecting a decline in capital adequacy as a result of catastrophe losses, near-term sensitivity to adverse adjustments to loss estimates or additional loss events, and adverse underlying earnings trends. (XL Group Ltd’s rating was placed on Rating Watch Positive on 6 March 2018 following the announcement of the planned acquisition by AXA SA.) We maintained the rating of Lloyd’s of London on Negative Outlook and Fitch believes that the 2017 catastrophe losses placed further pressure on that Outlook.

Ratings Range Based on Industry Profile/Operating Environment

IFS Rating	AAA	AA	A	BBB	<BBB
Reinsurance lines					

Source: Fitch

Peer Analysis

No Rated Peers

One Re has no equivalent like-for-like rated reinsurance peers for a relevant comparison because it is a start-up with specialised focus on Africa.

Capitalisation, Leverage and Financial Flexibility

(USDm)	2015	2016	2017	2018F[a]	2019F[a]	Fitch's expectation
Total assets	43	42	49	50	56	Fitch expects One Re to maintain coverage of S2 SCR (including voluntary capital add-on) above 125% and does not expect the company to issue any debt in the medium term.
Total shareholders' funds	40	38	41	40	40	
Net written premiums to equity (x)	0.0	0.0	0.1	0.2	0.3	
Net leverage (x)[b]	0.0	0.0	0.0	0.3	0.3	
Financial leverage (%)	0	0	0	0	0	
Total financing and commitments (TFC) ratio (x)	0.0	0.0	0.0	0.0	0.0	
Prism FBM score	Extremely strong	Extremely strong	Extremely strong			
Solvency II SCR[c] cover (%)	250	254	228	218	189	

[a] Company forecast
[b] Net leverage equals the sum of net written premiums and net technical liabilities to equity
[c] Including voluntary capital add-on
Source: One Re, Fitch

Strong Capitalisation

- Strong capitalisation likely to be maintained
- No financial leverage
- Financial flexibility adequate

Strong Capitalisation Likely to Be Maintained

One Re reported strong regulatory solvency margins at end-2017 and end-2016, with coverage of S2 SCR requirements of 228% and 254%, respectively. This includes a voluntary capital add-on in the S2 standard formula to reflect the operational challenges of operating in non-European Economic Area countries.

One Re's score in Fitch's Prism Factor-Based Capital Model is 'Extremely Strong', based on end-2017 financials.

Fitch expects capitalisation to fall as the company's business grows, but to remain strong and a rating positive. One Re follows a capital policy of maintaining SCR (including the voluntary capital add-on) coverage of at least 125%, and Fitch expects NWP to equity not to exceed 2x (2017: 0.1x).

No Financial Leverage

As One Re has not issued any senior or subordinated notes and does not use letters of credit, it has no financial leverage or financial commitments. One Re does not plan to issue any debt in the short to medium term, which is positive for its rating.

Financial Flexibility Adequate

Fitch views One Re's financial flexibility as being adequate, based on the company's strong capitalisation and liquidity. Fitch views the owners' willingness to support One Re as strong, as indicated by their commitment to the company during the longer-than-expected licensing process.

One Re has started building relationships with potential capital providers in the event of existing shareholders' funds not being sufficient to withstand business growth.

Financial Performance and Earnings

(USDm)	2015	2016	2017	2018F[a]	2019F[a]	Fitch's expectation
Net income	-5.1	-1.9	2.4	-0.9	0.1	Fitch expects One Re's profitability to improve in the medium term.
Net income return on equity (%)	-12	-5	6	-2	0	
Combined ratio (%)	891.6	18,410.5	284.4	142.4	114.5	
Operating ratio (%)	872.8	16,389.5	249.8	120.3	100.9	
Change in gross written premiums (%)	n.a.	9	153	87	56	

[a] Company forecast
Source: One Re, Fitch

Profitability to Improve as Business Grows

- Premium income not yet covering fixed costs
- Underwriting to be main profit driver

Premium Income Not Yet Covering Fixed Costs

One Re's NWP of USD3.3 million did not cover administrative expenses of USD3.8 million. Despite this low revenue base, One Re reported a net profit of USD2.4 million (2016: USD1.9 million loss) driven by investment gains and favourable FX developments.

Fitch expects One Re to be able to significantly increase its premium income by end-2018, allowing the company to remain profitable.

Underwriting to Be Main Profit Driver

One Re's conservative investment strategy is focused on cash, which leads Fitch to believe that the company's main profit driver will be its underwriting result. However, revaluations of the company's two direct property investments will lead to one-off impacts on profitability. In 2017, One Re reported USD2.7 million (2016: USD5.0 million) of fair value gains on property investments following the revaluation of one of the London properties.

Investment and Liquidity Risk

	2015	2016	2017	2018F[a]	2019F[a]	Fitch's expectation
Total invested assets (USDm)	40	38	41	40	40	Fitch expects One Re to maintain its strong liquidity position and to have a stable investment strategy.
Risky assets[b] to equity (%)	3	2	2	2	2	
Equity invests to equity (%)	0	0	0	0	0	
Non-investment-grade bonds to equity (%)	3	2	2	2	2	
Liquid assets to loss and LAE[c] reserves (%)	4,526	4,916	668	2,017	1,056	
Cash and cash equivalents to technical reserves (%)	452	653	152	161	118	

[a] Company forecast including branch network
[b] Risky assets are defined as affiliated and unaffiliated shares and non-investment-grade bonds
[c] LAE stands for loss adjustment expenses
Source: One Re, Fitch

Moderate Investment Risk, Strong Liquidity

- Moderate investment risk
- FX risk limited
- Strong liquidity position

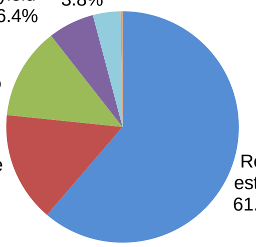
Moderate Investment Risk

Fitch regards One Re's investment risk as moderate. One Re's investment portfolio is dominated by its two real estate investments in the City of London (61% of invested assets at end-2017) and cash (15%, including cash holdings in the UBS money market funds).

The rest consists of a mandate of USD10 million, 60% invested in short-term US dollar-denominated corporate investment-grade bonds (average rating 'A-'), 25% in US dollar-denominated short-duration high-yield bonds (average rating 'BB') and 15% in US dollar-denominated money market funds. Overall, this smaller part of the total investment portfolio, which had a market value of USD10.6 million at end-2017, has a yield to maturity of 2.4%, with an average duration of 1.7 years and an average rating of 'BBB'.

At end-2015, One Re also had holdings in an investment-grade absolute return bond fund, but during 1H16 the company decided to divest from the fund due to poor performance. The proceeds were reinvested in cash.

One Re Investment Portolio
USD41.4m at end-2017



Source: One Re

FX Risk Limited

One Re limits its exchange-rate risk by predominantly underwriting US dollar-denominated policies and investing in assets backing insurance liabilities denominated in US dollars. Its head office's operating expenses are denominated in sterling, which creates some exchange-rate risk, but this is mitigated by the sterling income-generating potential of its London real estate investments.

At end-2017, a 5% weakening or strengthening of the UK pound against the US dollar would have led to a moderate (USD1.3 million; 2016: USD1.1 million) increase or decrease in the company's net profit. The increased FX sensitivity is a result of the fair value gains on One Re's London property investments. FX effects supported One Re's net income by USD2.1 million in 2017 after reducing it by USD3.8 million in 2016 (2015: USD0.5 million reduction).

Strong Liquidity Position

One Re's liquidity position was strong at end-2016 and end-2015, reflecting the small amount of business underwritten. One Re's liquidity ratio (liquid assets to loss and LAE reserves) is likely to remain above Fitch's 'AAA' sector credit factor median of 200% in the medium term, despite anticipated growth. One Re intends to dispose of its two real estate assets and to hold liquid assets only.

Reserve Adequacy

	2015	2016	2017	2018F[a]	2019F[a]	Fitch's expectation
Net technical reserves to net premiums earned (%)	-213	6,505	161	36	52	Fitch expects that One Re will be able to report reserve releases as the company includes the S2 risk margin in its IFRS provisions.
Net technical reserves to shareholders' funds (%)	2	3	10	5	12	
Loss reserves to current-year incurred losses (x)	1.0	3.0	0.5	0.6	0.4	
Loss reserves to prior-year equity (x)	0.0	0.0	0.1	0.0	0.0	
Current-year paid losses to incurred losses (x)	0.0	1.8	0.2	0.9	0.8	
Change in loss reserves to earned premiums (%)	97	537	-79	-5	-10	
Reserve development to prior-year equity (%)		-0.4	-0.5			
Reserve development to net earned premiums (%)		-916	-7			

[a] Company forecast including branch network
Source: One Re, Fitch

Reserve Adequacy Yet to Be Tested

- Underwriting focus limits reserving risk

Underwriting Focus Limits Reserving Risk

As One Re only started underwriting business in 2015, its reserve adequacy is yet to be tested. However, Fitch views One Re's reserving risk as low. This is because One Re underwrites only short-tail non-life business. One Re does not issue policies for risks exceeding a 48-month claims discovery and reporting period for casualty and liability lines, which accounted for around 10% of the total portfolio in 2017.

One Re assesses its claims reserves on a best-estimate basis using loss ratio modelling techniques for attritional claims, while large claims are modelled on an individual risk basis. In accordance with S2, One Re has adopted cost of capital methodology to determine the risk margin to be carried on top of the best-estimate reserves.

Reinsurance, Risk Management and Catastrophe Risk

(%)	2015	2016	2017	2018F[a]	2019F[a]	Fitch's expectation
Reinsurance recoverables to equity	1	1	7			Fitch expects One Re to maintain its strong reinsurance cover. Premium retention is likely to stay below 70%.
Net written premiums to gross written premiums	3	15	52	53	62	

[a] Company forecast including branch network
Source: One Re, Fitch

Effectiveness of Reinsurance Programme Yet to Be Tested

- Strong reinsurance programme
- Counterparty risk low
- Reinsurance protection limits catastrophe risk

Strong Reinsurance Programme

Fitch regards One Re's reinsurance programme as strong. The company uses reinsurance providing proportional surplus cover for fire and engineering risks, excess of loss cover for liability risks (general, motor and workmen's), excess of loss cover for political and terrorism risks, whole account excess of loss cover and excess of loss catastrophe risk cover.

However, the effectiveness of the reinsurance programme is yet to be tested, as One Re only started underwriting business in 2015.

Counterparty Risk Low

Fitch considers the diversification and credit quality of One Re's reinsurance programme to be strong and its reinsurers to be of good credit quality. The company has a retrocession panel of 18 reinsurers that are predominantly rated 'A-' or better and allows a maximum participation of 20% per reinsurance partner. One Re has also signed a retrocession contract with Continental Re for about 5% of One Re's business.

Reinsurance Protection Limits Catastrophe Risk

Africa is exposed to flood and windstorm risks, albeit to a much lesser extent than other continents. One Re manages its catastrophe exposure via probable maximum loss analysis per event and using aggregation analysis and modelling in line with S2 requirements.

Overall, Fitch views One Re's net retained catastrophe risk as low. This is because the group purchases single-event and aggregate excess of loss cover, reducing its catastrophe exposure to USD2.5 million on an aggregate basis per year at end-2016. In 2017, One Re reduced its catastrophe exposure to USD1 million by purchasing additional aggregate excess of loss cover.

Appendix: Other Ratings Considerations

Below is summary of additional ratings considerations of a “technical” nature that are also part of Fitch’s ratings criteria.

Group IFS Rating Approach

One Re is rated on a standalone basis.

Notching

For notching purposes, the regulatory environment of the UK is assessed by Fitch as “Effective”, and classified as following a group solvency approach.

Notching Summary

Holding Company
Not applicable
IFS Ratings
A baseline recovery assumption of “Good” applies to the IFS rating, and standard notching was used from the IFS “anchor” rating to the implied operating company IDR.
Debt
Not applicable
Hybrids
Not applicable

Source: Fitch

Shot-Term Ratings

None.

Hybrids — Equity/Debt Treatment

Not applicable.

Criteria Variations

None.

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.