

## Sirius International Insurance Corp.

### Rationale

The ratings on Stockholm-based reinsurer Sirius International Insurance Corp. (Sirius), which are equalized at the level of those on its affiliate—Folksamerica Reinsurance Co.—reflect its very strong capitalization and its track record of earnings outperformance. The ratings are further supported by Sirius' strategic importance to BermudA-based White Mountains Insurance Group Ltd. (WTM; BBB/Stable/—). The ratings are constrained, however, by the greater-than-expected increase in Sirius' risk appetite as a member of White Mountains Re (WMRe) and the ongoing, albeit much diminished, uncertainty surrounding the run-off of its wholly owned, BermudA-based finite reinsurance subsidiary, Scandinavian Reinsurance Co. Ltd. (Scandinavian Re; not rated).

The ratings on Sirius are underpinned by its very strong capitalization. The resilience of its capital position is demonstrated by the fact that its prospective capital adequacy ratio, measured using the risk-based model devised by Standard & Poor's Ratings Services, is expected to remain very strong despite the recent marked increase in the company's risk appetite.

Sirius has consistently outperformed its European peers over an extended period, reflecting its superior focus on cycle management and its historically conservative approach to risk retention. Sirius' increased appetite for risk as a member of WMRe is expected to increase both its earnings power and the prospective volatility of its operating performance.

Standard & Poor's considers Sirius to be strategically important to WTM. This reflects the speed and breadth of Sirius' strategic, financial, and operational integration within WMRe, which has been greater than expected following its acquisition in April 2004. Owing to the demonstrated fungibility of risk, particularly within WMRe, the ratings on Sirius are equalized at the level of those on affiliate Folksamerica Reinsurance Co.

As a member of WMRe, Sirius' risk appetite has increased more than Standard & Poor's had expected, although not yet to an extent that would threaten the group's very strong capitalization. This has been most evident in Sirius' decision to cease purchasing nonproportional retrocession for its peak exposures. This operational gearing reduces Sirius'

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margin for error, while residual uncertainty about the extent to which WMRe might seek to gear up Sirius further acts as a drag on the ratings.

Scandinavian Re has been in run-off since January 2002. Although the run-off has so far been orderly, persistent deterioration in the reserves held by Scandinavian Re to meet its policyholder obligations has adversely impacted the group's operating performance in recent years. The residual risk posed to Sirius by Scandinavian Re, now at a much reduced level in absolute terms, has been factored into the current ratings. This risk is further mitigated by limits on the potential recourse that Scandinavian Re's policyholders could make to Sirius should the need arise.

## **Outlook**

The stable outlook on the ratings of Sirius and its affiliate, Folksamerica, reflects Standard & Poor's expectation that WMRe's competitive position will be maintained, that the companies will, in aggregate, be substantially less exposed to gross property catastrophe losses prospectively, and that earnings will continue to benefit from an improved reinsurance marketplace. In addition, capital adequacy is expected to remain very strong. Failure to meet one, or more, of these expectations could place downward pressure on the ratings.

The outlook could be revised to positive were WMRe able to demonstrate strong earnings momentum across the cycle underpinned by a consistent and robust approach to enterprise risk management (ERM).

Despite the ratings on Sirius currently being equalized with those on Folksamerica, the relative lack of fungibility of Sirius' very strong capital base, due to regulatory constraints, could insulate it somewhat from future unforeseen capital shocks at the WMRe level. Therefore, the ratings on Sirius need not necessarily move in lockstep with those on WMRe in all circumstances.

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