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August 4, 2009

Research Update:

QBE del Istmo Cia. de Reaseguros Inc. 'BBB-' Ratings Affirmed; Outlook Remains Stable

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Overview

- QBE del Istmo Cía. de Reaseguros Inc. has conservative underwriting and reserving practices, good operating performance, geographic diversification across Latin America, and strong capitalization.
- As a result, we have affirmed our 'BBB-' ratings on the company.
- The stable outlook reflects our belief the business will continue to grow, supported by strong capital levels, and that the company will maintain its conservative underwriting practices.

Rating Action

On Aug. 4, 2009, Standard & Poor's Ratings Services affirmed its 'BBB-' counterparty credit and financial strength ratings on QBE del Istmo Cía. de Reaseguros Inc. (QBERIO). The outlook remains stable.

Rationale

The ratings are based on QBERIO's conservative underwriting and reserving practices, good operating performance, geographic diversification across Latin America, and strong capitalization. Some mitigating factors include the catastrophic nature of some of the company's business lines, QBERIO's exposure to changes in the pricing environment, and increased reinsurance commissions.

The ratings on QBERIO are higher than those on the Republic of Panama (BB+/Stable/B). We do not believe that the risk of imposed exchange controls is material because of Panama's long-standing use of the U.S. dollar. Therefore, we have no specific constraint on the foreign-currency ratings on Panama-based entities.

QBERIO is a Panama-based reinsurance company that mostly underwrites property/casualty reinsurance. QBERIO has increased its geographic diversification, but its main markets remain in Mexico and Colombia, which constitute 65% and 17% of its premium volume, respectively.

QBERIO maintains conservative underwriting practices, which have resulted in loss ratios of less than 60% for the last 10 years (52.8% in 2008). Good underwriting performance and cost-discipline practices are the main factors behind its good profitability, as its return on assets of 2.9% and return on equity of 12.7% in 2008 demonstrate.

According to our capital model, QBERIO has extremely strong capitalization, which we consider to be one of the strengths of the rating given the reinsurer's risk profile. The company continues to improve its capitalization as a result of its good earnings and conservative profit-retention policies.

Despite its good operating performance and the implemented reduction of exposures on critical zones, QBERIO's vulnerability to changes in pricing conditions in the global reinsurance market and the catastrophic nature of the property/casualty portfolio constrain the ratings.

Outlook

The stable outlook reflects our opinion that QBERIO will further diversify its product base, lines of business, and clients. The company's strong capital levels should continue to support growth, and we believe the reinsurer will maintain its conservative underwriting practices.

Further improvements in the risk profile of QBERIO's business mix, while maintaining good profitability and capital levels, could benefit the ratings. Alternatively, if underwriting performance or capitalization levels deteriorate substantially, we could lower the ratings.

Related Research

- "Table Of Contents: Standard & Poor's Insurance Ratings Criteria," July 7, 2009.

Ratings List

Ratings Affirmed

QBE del Istmo, Cia. de Reaseguros, Inc.	
Counterparty Credit Rating	
Local Currency	BBB-/Stable/--
Financial Strength Rating	
Local Currency	BBB-/Stable/--

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