

## Fitch Affirms Validus' Ratings; Outlook Stable

Written by Australian Business

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CHICAGO--( [BUSINESS WIRE](#) )--Fitch Ratings today affirmed the ratings of Validus Holdings, Ltd. (Validus). These rating actions include Validus' senior unsecured debt rating, which was affirmed at 'BBB+' and the Insurer Financial Strength (IFS) rating of Validus Reinsurance, Ltd. (Validus Re), which was affirmed at 'A'. The Rating Outlook is Stable. A complete list of rating actions is provided at the end of this release.

### KEY RATING DRIVERS

The ratings affirmation reflects Validus' continued solid operating performance and internal capital generation since its inception in late 2005. Validus reported \$254 million of net earnings in the first half of 2013, driven by a strong combined ratio of 69.7%, which benefited from the absence of large catastrophe events during the period.

Barring any unusually large catastrophe events in the fourth quarter of 2013, Fitch expects Validus' full year results for 2013 to reflect very strong underwriting profits and solid overall profitability that will continue to be partially dampened by suppressed investment income due to the continued low interest rate environment.

Fitch notes favorably that Validus has produced an operating and underwriting profit in each year of its existence, a period during which many of its comparably rated peers have occasionally generated significant annual underwriting losses and sizable negative operating income.

The affirmation also reflects that the company's underwriting performance, while volatile, continues to compare favorably to other property catastrophe reinsurers rated by Fitch when viewed on a multi-year rolling average basis.

Fitch observes that the company's share of global catastrophe losses since its inception, while significant in some cases, has been manageable and consistent with levels that might be expected from a reinsurer of Validus' size and focus.

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Fitch believes that Validus uses sound risk management processes to manage its exposure to potential catastrophe-related losses by geographic zone and relative to its capital base. Validus' low underwriting leverage enables the company to preserve capital during periods that include underwriting volatility.

Validus' capital ratios (such as net premium to equity and assets to equity) have consistently remained well within tolerances for the current rating level. Fitch expects this trend to continue for the foreseeable future.

The balance sheet risk is relatively modest, as its investment portfolio is dominated by highly rated fixed income investments that fared well during periods of capital market volatility. There is relatively little risk of significant adverse loss development from the company's largely short-tail underwriting liabilities.

Validus' ratings continue to recognize the company's significant exposure to earnings and capital volatility derived from its property catastrophe reinsurance products.

### RATING SENSITIVITY

Key rating triggers that could generate longer-term positive rating pressure include a prolonged period during which Validus outperformed comparably rated peers with respect to underwriting performance and overall profitability, continued strong risk adjusted capitalization metrics, and enhanced competitive positioning and scale in the company's key product lines.

Key rating triggers that could result in a ratings downgrade include an increase in underwriting leverage (measured by traditional net premiums written to equity ratios) to levels at or above 0.7 times (x) from recent levels of 0.4x. Likewise, an increase in Validus' 1-100 and 1-250 year per event catastrophe probable maximum losses (PML's) to 30% (currently 20%) and 40% (currently 26%) of total equity, respectively, could result in a downgrade.

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Additionally, failure to maintain a run rate average combined ratio in the mid-80%'s, which approximates Validus' average result from 2008 through 2012, could result in a ratings downgrade.

Fitch could also downgrade the company's ratings if Validus were to suffer catastrophe losses that were unfavorably inconsistent with its own internally modeled results or that resulted in earnings and/or capital declines that were significantly worse than comparably rated peers.

A material increase in Validus' debt-to-capital ratio to levels in excess of 25% or decrease in run-rate interest coverage ratios to the low single digits for a period of consecutive years could lead Fitch to downgrade the company's debt ratings.

Fitch has affirmed the following ratings with a Stable Outlook:

Validus Holdings, Ltd.

--Issuer Default Rating (IDR) at 'A-';

--\$250 million of 8.875% senior unsecured notes due 2040 at 'BBB+';

--\$150 million of 9.07% junior subordinated deferrable debentures due June 2036 at 'BBB-';

--\$140 million of 8.48% junior subordinated deferrable debentures due June 2037 at 'BBB-'.

Validus Reinsurance, Ltd.

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--IFS at 'A'.

Additional information is available at ' [www.fitchratings.com](http://www.fitchratings.com) '

Applicable Criteria and Related Research:

--'Insurance Rating Methodology' (August 2013).

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Insurance Rating Methodology

[http://www.fitchratings.com/creditdesk/reports/report\\_frame.cfm?rpt\\_id=715468](http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=715468)

Additional Disclosure

Solicitation Status

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