S&P Global
Ratings

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Factory Mutual Insurance Co.

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Factory Mutual Insurance Co.

Anchor	a+	+	Modifiers	0	=	SACP	a+	=	A+/Positive/--

Business Risk	Very Strong
Competitive position	Excellent
IICRA	Moderately high
Financial Risk	**Strong**
Capital and earnings	Excellent
Risk exposure	High
Funding structure	Neutral

Governance	Neutral
Liquidity	Exceptional
Comparable ratings analysis	0

+

Support	0
Group support	0
Government support	0

A+/Positive/--
Financial strength rating

IICRA--Insurance Industry And Country Risk Assessment.
SACP--Stand-alone credit profile.

Credit Highlights

Overview

Strengths	Risks
World largest commercial property insurer and leader in specialized engineering-based property underwriting and research.	Susceptibility to material losses arising from large limits and capacity in property underwriting
Innovative and highly valued customized loss prevention solutions complementing large commercial property products.	High risk appetite for equity investments could exposing capital to financial-market volatility
Strong long-term underwriting performance, though subject to outsized losses arising from natural catastrophes.	Product diversity is narrow given its primary focus on commercial property coverage

Factory Mutual Insurance Co.'s (FM Global's) leadership in providing insurance coverage and risk management services for large commercial and industrial properties will benefit from favorable interest rates. The company performed well in 2022 and the first nine months of 2023, and we expect underwriting margin to continue improving amid favorable rates and its paring of non-performing accounts since 2018. Moreover, we believe its innovative risk engineering expertise will raise operating margins closer to those of 'AA' rated peers. We expect FM Global's combined ratio (including membership and resilient credits) to remain at 85%-92% for 2023-2024. In 2022 and through Sept. 30, 2023, the company reported a combined ratio of 77% and 67%, respectively.

Capitalization is a rating strength. FM Global's capitalization, as measured by S&P Global Ratings' capital adequacy model, remains substantially redundant at the 'AAA' level. The company has maintained excellent capital levels through periods of heightened catastrophe activity and capital markets volatility due to this capital buffer, proper risk mitigation policies, and effective use of reinsurance.

Potential earnings and capital volatility is high due to the inherent nature of the insurance coverage FM Global provides and its investment strategy. Given that FM Global is a large commercial property risk underwriter, volatility generated by single large location losses, aggregation of losses from single event, or a combination of both is inherent and expected. We believe the company's research-based engineering expertise and effective use of location-based reinsurance help mitigate outsized losses. Nonetheless, underwriting results each year can fluctuate, depending on the level of large loss or natural catastrophe activity. At the same time, the company's risk appetite on equities could expose balance-sheet capital to significant market risk. These risks are mitigated by the company's substantial capital buffer and the generally uncorrelated nature of these risks.

The combination of a very strong business and financial risk profiles leads to a split anchor of 'aa-/a+'. We choose a lower of the split rating, largely attributed to the company's narrow commercial property focus.

Outlook: Positive

The outlook is positive. Management had significantly pared down its non-performing accounts to improve profitability. We expect this to bolster operating performance. The positive outlook also reflects our view of the company's very strong competitive profile supported by its innovative loss-prevention solutions and prominent presence in the large commercial property market. Given FM Global's narrow focus on large commercial property, the potential for large catastrophe losses is always present, making underwriting performance inherently volatile. However, we expect the company to generate a longer-term average (e.g. five-year) combined ratio of 91%-92% or comparable with those of the 'AA' rated peers.

For 2023-2024, we expect high-single-digit premium growth, as the company leverages rate strengthening for commercial property. We expect FM Global's combined ratio (including membership and resilient credits) to remain at 85%-92% for 2023-2024.

Downside scenario

The ratings could come under pressure in the next 24 months if operating performance becomes a going concern, e.g. substantially below our expectations or structural changes within the company's underwriting approach, which we believe weaken its competitive profile. We may also lower our ratings if capital redundancy per our proprietary risk-adjusted capital model falls and remains below the 'AAA' confidence level due to substantial underwriting losses or equity markets volatility.

Upside scenario

We could raise the ratings by one notch if FM Global maintains its combined ratio to 91%-92% or lower in the next 12-24 months, while retaining extremely strong capital.

Macroeconomic Assumptions

- Real U.S. GDP year-over-year growth of 2.3% in 2023 and 1.3% in 2024
- 10-year Treasury rate near 3.9% in 2023 and 4.0% in 2024
- Consumer Price Index at 4.1% in 2023 and 2.4% in 2024
- Unemployment rate of 3.6% in 2023 and 4.1% in 2024

Source: "Economic Outlook U.S. Q4 2023: Slowdown Delayed, Not Averted," Sept. 25, 2023.

Key Metrics

	--Year ended Dec. 31--						
(Mil. $)	**2024***	**2023***	**2022**	**2021**	**2020**	**2019**	**2018**
P/C net premium written	7,502	7,145	6,615	5,799	5,092	4,479	4,097
P/C net combined ratio (%)	85-91	84.0	76.0	82.2	91.8	79.7	128.6
Net Income	900-600	1,835	(296)	2,842	1,732	2,479	161
Return on revenue (%)	12.6-18.2	19.1	27.1	22.0	12.8	26.6	(17.2)
Return on shareholder's equity (%)	2.9-4.2	9.5	(1.6)	15.9	11.1	18.8	1.3
S&P Global Ratings' capital adequacy	AAA	AAA	AAA	AAA	AAA	AAA	AAA

*2023-2024 Forecast data reflect SP Global Ratings base-case assumptions. Net income projections exclude realized investment gains/losses

Business Risk Profile: Very Strong

FM Global is a global commercial property insurer and risk management services provider focused on the large commercial property market. Its operations are globally diversified and mostly in developed markets that we typically view as having intermediate industry risk due to the property/casualty (P/C) sector's inherent product risk in these markets.

We base our assessment of FM Global's competitive position as very strong on its strong reputation and major presence in the large commercial property market. Its highly regarded reputation for engineering expertise in assessing client risks to prevent and mitigate losses gives the company a significant commercial advantage over competitors, as seen in its high client retention and generally favorable underwriting performance. FM Global's underwriters and claim adjusters are predominantly trained risk engineers with substantial technical expertise, supporting a deep-rooted, engineer-focused risk culture. Client retention is enhanced by the membership credits given to policyholders in years when FM Global's operating performance and capital position are strong. These membership credits are based in part on their tenure as policyholders with the company.

Although the historical performance has been affected by large weather-related losses in 2017-2018, FM Global's underwriting results have trended favorably, as seen in a 10-year (2013-2022) and five-year (2018-2022) average combined ratios of 91% and 90%, respectively. As part of its ongoing risk mitigation process, the company also uses loss prevention reports prepared by their field engineers to ensure its view on maximum foreseeable loss aligns with policy limit, including its use of reinsurance. We consider this proactive surveillance risk mitigation strategy critical to control large losses, triggered by either a single location or multiple locations from a single event.

Chart 1

Average combined ratio (2018-2022)

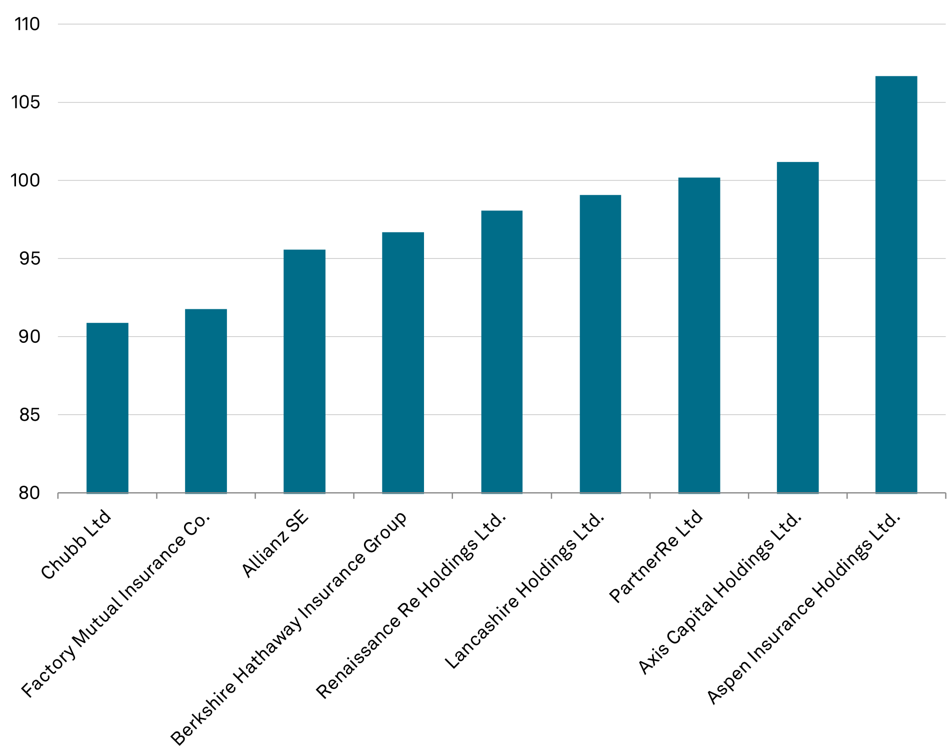
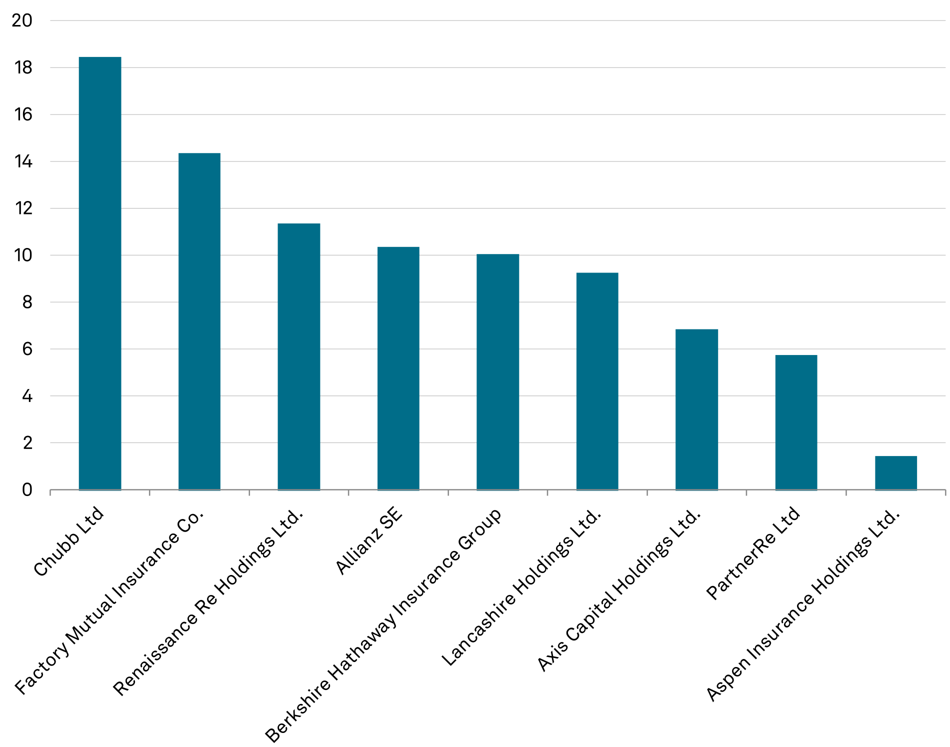


Chart 2

Return on revenue average (2018-22)



Financial Risk Profile: Strong

We view FM Global's capital adequacy as extremely strong, supported by strong earnings generation and its mutual insurer structure. We assess the company's capital redundancy at the 'AAA' level, per our proprietary capital adequacy model. In our view, this mitigates the risk of substantial losses due to catastrophe events or a sharp decline in equity markets causing a significant decline in capital. While 2017 and 2018 underwriting and investment losses did not modify our capital assessment, we view the company's earnings volatility as partially offsetting its generally strong underwriting performance.

We regard FM Global's risk exposure as high, due to its large equity investments (around 41% of its investment portfolio as of the end of 2022, including private equity and equity-oriented hedge funds), significant exposure to catastrophic events, and some legacy asbestos and environmental exposure. FM Global's high catastrophe exposure is a direct result of its large commercial property business concentration. While the company has a high risk tolerance toward equities, the risk is partially offset by its diversification by issuer and sector.

As a mutual insurer, it lacks access to the public equities markets, but FM Global has no debt in its capital structure, consistently maintains sufficient levels of cash and short-term investments to avoid having to sell securities at an inopportune time to pay claims, and has access to large, highly-rated reinsurers for capital support.

Other Key Credit Considerations

Governance

FM Global's senior management has maintained its longstanding strategy of providing extensive and competitive property insurance capacity to commercial, industrial, and institutional policyholders who share its commitment to proactive risk mitigation. FM Global believes the majority of losses are preventable, and it works diligently with its insureds to help foster best-in-class loss-prevention plans. Management has significant depth and breadth in the business, reflecting its tendency to promote from within the company.

Liquidity

FM Global's liquidity is exceptional, and we don't expect liquidity constraints to keep it from meeting its policyholder obligations due to its strong operating cash flows. As an alternative to dividends, FM Global provides a membership credit to policyholders when these are justified by strong underwriting results. Receipt of the credit is contingent upon renewal or anniversary of an existing policy and is paid to the policyholder as a reduction of its renewal premium for the coming year. And more recently, the company has implemented a first-of-its-kind resilience credit for eligible FM Global policyholders to invest in climate-risk improvement.

Environmental, social, and governance

Environmental factors are a negative consideration in our credit rating analysis of FM Global. In our view, FM Global's potential earnings and capital volatility are high due to the nature of the insurance coverage FM Global provides. Because the company writes almost exclusively primary commercial property coverage with large limits, it is exposed to large individual losses from fires and accidents, as well as more widespread losses from natural catastrophe events. Therefore, underwriting results each year can fluctuate dramatically depending on the level of large loss or natural catastrophe activity. However, these risks are mitigated to a large degree by the company's substantial capital buffer at the 'AAA' level.

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011
- Criteria | Insurance | General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010

Appendix

Credit Metric History

(Mil. $)	2022	2021
S&P Global Ratings' capital adequacy	AAA	AAA
Total invested assets	23,547	25,361
Total shareholder equity	18,478	19,369
Gross premium written	8,895	7,959
Net premium written	6,615	5,799
Net premium earned	5,773	5,504
EBIT	(427)	3,482.60
Net income (attributable to all shareholders)	(296)	2,842.40
Return on revenue (%)	27.09	21.98
Return on assets (excluding investment gains/losses) (%)	5.87	4.79
Return on equity (%)	(1.56)	15.85
Property/casualty: Net combined ratio (%)	76.03	82.17
Property/casualty: Net expense ratio (%)	26.18	25.65

Business And Financial Risk Matrix

Business risk profile	Financial risk profile							
	Excellent	Very Strong	**Strong**	Satisfactory	Fair	Marginal	Weak	Vulnerable
Excellent	aa+	aa	aa-	a+	a-	bbb	bb+	b+
Very Strong	aa	aa/aa-	**aa-/a+**	a+/a	a-/bbb+	bbb/bbb-	bb+/bb	b+
Strong	aa-/a+	a+/a	a/a-	a-/bbb+	bbb+/bbb	bbb-/bb+	bb/bb-	b+/b
Satisfactory	a	a/a-	a-/bbb+	bbb+/bbb	bbb/bbb-	bb+/bb	bb-/b+	b/b-
Fair	a-	a-/bbb+	bbb+/bbb	bbb/bbb-	bbb-/bb+	bb/bb-	b+/b	b-
Weak	bbb+/bbb	bbb/bbb-	bbb-/bb+	bb+/bb	bb/bb-	bb-/b+	b/b-	b-
Vulnerable	bbb-/bb+	bb+/bb	bb/bb-	bb-/b+	b+/b	b/b-	b-	b-

Note: Where table indicates two possible outcomes, we determine the anchor as follows: For financial risk profiles that we assess as satisfactory or stronger, we consider the relative strength of both the business risk and financial risk profiles within the cell. This is based on a holistic assessment of the relative strengths of the rating factors of the business risk profile and financial risk profile. For financial risk profiles that we assess as fair or weaker, we typically place more weight on the relative strength of the rating factors of the financial risk profile.

Ratings Detail (As Of October 25, 2023)*

Operating Companies Covered By This Report	
Factory Mutual Insurance Co.	
Financial Strength Rating	
Local Currency	A+/Positive/--
Issuer Credit Rating	
Local Currency	A+/Positive/--
Affiliated FM Insurance Co.	
Financial Strength Rating	
Local Currency	A+/Positive/--

Ratings Detail (As Of October 25, 2023)*(cont.)	
Issuer Credit Rating	
Local Currency	A+/Positive/--
F.M. Insurance Co. Ltd.	
Financial Strength Rating	
Local Currency	A+/Positive/--
Issuer Credit Rating	
Local Currency	A+/Positive/--
FM Insurance Europe S A	
Financial Strength Rating	
Local Currency	A+/Positive/--
Issuer Credit Rating	
Local Currency	A+/Positive/--
Domicile	Rhode Island

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.