S&P Global
Ratings

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Factory Mutual Insurance Co.

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Factory Mutual Insurance Co.

Anchor	aa-	+	Modifiers	0	=	SACP	aa-		

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

Governance	Neutral
Liquidity	Adequate
Comparable ratings analysis	0

\+

Support	0
Group support	0
Government support	0

=

AA-/Stable/--
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 expose capital to financial-market volatility.
Superior underwriting performance, although 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's) leadership in providing insurance coverage and risk management services for large commercial and industrial properties will continue to benefit from favorable interest rates. The company again performed well in 2023 and the first seven months of 2024, and S&P Global Ratings expects underwriting margins to compare favorably relative to peers. We believe its innovative risk engineering expertise and renewed underwriting standards will help sustain FM's superior operating margins. In turn, we expect FM's combined ratio (loss and expense; including membership credits) will remain at 85%-92% for 2024-2025. In 2023 and through July 31, 2024, the company reported combined ratios of 66.9% and 71.0%, respectively. In our view, the company remains on target for a combined ratio of 92% in full-year 2024, when factoring in potential damage from Hurricane Helene.

Capitalization is a rating strength. FM's capitalization, as measured by S&P Global Ratings' capital adequacy model, remains redundant above the 99.99% confidence level. The company has maintained excellent capital and earnings levels through periods of heightened catastrophe activity and capital market volatility due to this capital buffer, proper risk mitigation policies, and effective use of reinsurance.

The potential for earnings and capital volatility is high due to the inherent nature of the insurance coverage FM provides and its investment strategy. Given that FM is a large commercial property risk underwriter, volatility generated by single large location losses, aggregation of losses from a single event, or a combination of both are 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 can fluctuate widely each year, 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 the risks.

The combination of very strong and strong business and financial risk profiles leads to a split anchor of 'aa-/a+'. We choose the higher anchor in recognition of the company's superior underwriting margin and robust capital buffer (above the 99.99% confidence level), compensating for its narrow commercial property focus.

Outlook: Stable

The stable outlook reflects the company's robust capital adequacy, supported by its consistent strong operating earnings. We believe FM will maintain at least an average 5-percentage-point (five-year) lead over the industry in terms of combined ratio and compares favorably relative to peers.

Downside scenario

However, the ratings could come under pressure in the next 24 months if operating performance becomes a going concern, such as by falling substantially below our expectations or due to structural changes within its underwriting approach that we think weaken the competitive profile. We may also lower our ratings if capital redundancy, per our proprietary risk-adjusted capital model, falls and remains below the 99.99% confidence level due to substantial underwriting losses or equity-market volatility.

Upside scenario

We do not expect to raise our ratings during the next 24 months. In the longer term, an upgrade would likely depend on FM's ability to further diversify its product mix beyond commercial property that would lead to an improved risk exposure assessment, while maintaining underwriting excellence and capitalization at levels commensurate with those of higher-rated peers.

Macroeconomic Assumptions

- Real U.S. GDP year-over-year growth of 2.7% in 2024, and 1.8% in 2025.
- 10-year U.S. Treasury rate of near 4.1% in 2024, and 3.4% in 2025.
- Consumer price index growth at 2.9% in 2024, and 2.0% in 2025.
- Unemployment rates of 4.1% in 2024, and 4.4% in 2025.

Source: "Economic Outlook U.S. Q4 2024: Growth And Rates Start Shifting To Neutral," published Sept. 24, 2024, on RatingsDirect.

Key metrics

Factory Mutual Insurance Co. key metrics

(Mil. $)	--Year ended Dec. 31--							
	2025*	2024*	2023	2022	2021	2020	2019	2018
P/C net premium written	9,224	8,700	7,770	6,615	5,799	5,092	4,479	4,097
P/C net combined ratio (%)	92.0	92.0	66.9	76.0	82.2	91.8	79.7	128.6
Net income	865	2,162	3,749	(296)	2,842	1,732	2,479	161
Return on revenue (%)	13.4	12.9	37.5	27.1	22.0	12.8	26.6	(17.2)
Return on shareholder's equity (%)	3.5	9.2	18.3	(1.6)	15.9	11.1	18.8	1.3
S&P Global Ratings capital adequacy	99.99%	99.99%	99.99%	AAA	AAA	AAA	AAA	AAA

*2024-2025 Forecast data reflect S&P Global Ratings' base-case assumptions. Net income projections exclude realized investment gains/losses. P/C--Property/casualty.

Business Risk Profile: Very Strong

FM 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 countries 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'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'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's operating performance and capital position are strong. These membership credits are based in part on their tenure as policyholders with the company.

Although historical performance was significantly affected by large weather-related losses in 2017-2018, FM's underwriting results have trended favorably. This is seen in 10-year (2014-2023) and five-year average combined ratios of about 90.5% and 79.4%, respectively. The company has significantly pared down its nonperforming accounts since 2018 in light of two back-to-back years of elevated weather-related losses. As a result, it no longer allows policyholders to defer risk improvement mandates. Under its ongoing risk mitigation process, FM also engages in risk improvement reviews annually to ensure its view on maximum foreseeable losses aligns with policy limits, including its use of reinsurance. We consider this proactive risk mitigation strategy critical to control large losses, triggered by either a single location or multiple locations from a single event.

Chart 1

Insurers' average return on revenue for 2019-2023

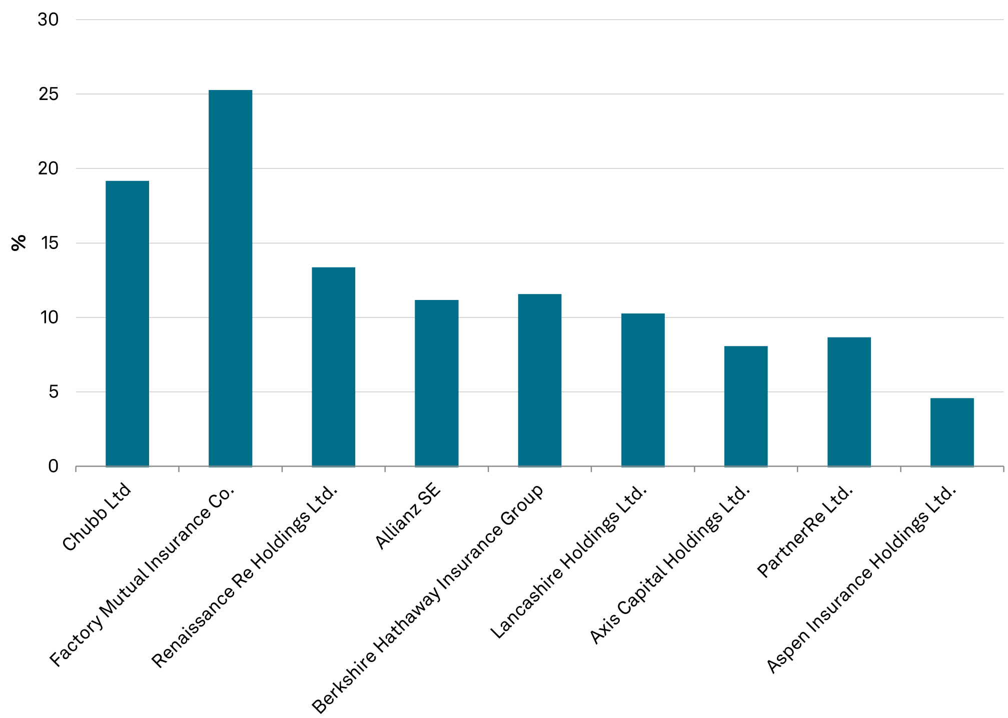
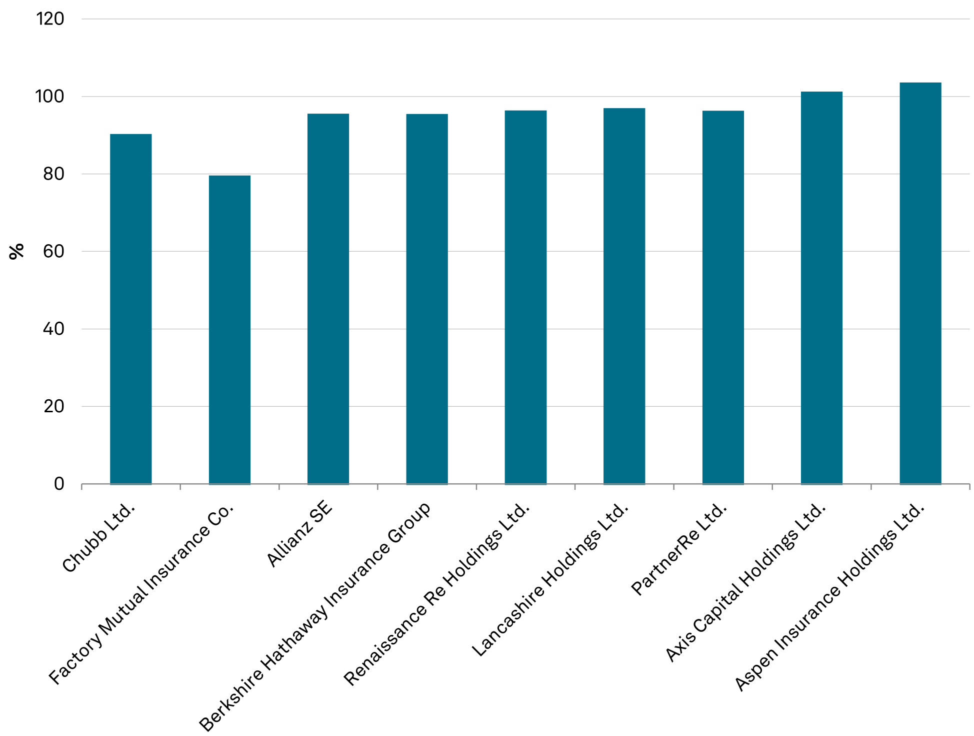


Chart 2

Insurers' average combined ratio for 2019-2023



Financial Risk Profile: Strong

We continue to view FM's capital adequacy as a strength for the rating, supported by strong earnings generation and its mutual insurer structure. We assess the company's capital redundancy at the 99.99% confidence 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 strong underwriting performance.

We regard FM's risk exposure as high. This is due to its large equity investments (about 61% of its investment portfolio as of year-end 2023, including private equity and equity-oriented hedge funds); significant exposure to catastrophic events; and some legacy asbestos and environmental exposure. FM'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 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'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 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's liquidity is adequate, 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 provides a membership credit to policyholders when these are justified by strong underwriting results. Receipt is contingent upon the renewal or anniversary of an existing policy and is paid to the policyholder as a reduction of its renewal premium for the coming year as a credit.

Environmental, social, and governance

Environmental factors are a negative consideration in our credit rating analysis of FM. In our view, FM's potential earnings and capital volatility are high due to the nature of the insurance coverage FM provides. Because the company almost exclusively writes 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 can fluctuate dramatically each year 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 in excess of the 99.99% confidence level.

Related Criteria

- Criteria | Insurance | General: Insurer Risk-Based Capital Adequacy--Methodology And Assumptions, Nov. 15, 2023
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

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 17, 2024)*

Operating Companies Covered By This Report	
Factory Mutual Insurance Co.	
Financial Strength Rating	
Local Currency	AA-/Stable/--
Issuer Credit Rating	
Local Currency	AA-/Stable/--
Affiliated FM Insurance Co.	
Financial Strength Rating	
Local Currency	AA-/Stable/--
Issuer Credit Rating	
Local Currency	AA-/Stable/--
F.M. Insurance Co. Ltd.	
Financial Strength Rating	
Local Currency	AA-/Stable/--
Issuer Credit Rating	
Local Currency	AA-/Stable/--
FM Insurance Europe S A	
Financial Strength Rating	
Local Currency	AA-/Stable/--
Issuer Credit Rating	
Local Currency	AA-/Stable/--
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.