FitchRatings

Fitch Affirms Coface at IFS 'AA-'; Outlook Stable

Fitch Ratings - Paris - 10 July 2019:

Fitch Ratings has affirmed Compagnie francaise d'assurance pour le commerce exterieur's (Coface France), Coface North America Insurance Company's and Coface Re SA's Insurer Financial Strength (IFS) Ratings at 'AA-'. The issuers are major insurance operating entities in the Coface group (Coface).

Fitch has also affirmed Coface France's and Coface SA's Long-Term Issuer Default Rating (IDR) at 'A+'. Coface SA is the group's top holding company. The Outlooks on the IFS ratings and IDRs are Stable. A full list of rating actions is at the end of this commentary.

RATING ACTIONS

ENTITY/DEBT	RATING		PRIOR
Coface Finanz GmbH	LT IDR A+ ⭘ Affirmed		A+ ⭘
Coface North America Insurance Company (CNAIC)	Ins Fin Str AA- ⭘ Affirmed		AA- ⭘
Coface Re SA	Ins Fin Str AA- ⭘ Affirmed		AA- ⭘
COFACE SA	LT IDR A+ ⭘ Affirmed		A+ ⭘
	ST IDR F1 Affirmed		F1
subordinated	LT A- Affirmed		A-
senior unsecured	ST F1 Affirmed		F1
Compagnie Francaise d'Assurance pour le Commerce Exterieur S.A.	LT IDR A+ ⭘ Affirmed		A+ ⭘
	Ins Fin Str AA- ⭘ Affirmed		AA- ⭘
	Ins Fin Str ST F1+ Affirmed		F1+

Key Rating Drivers

The ratings are primarily driven by Coface's very strong business profile, very strong 'capitalisation and leverage', and strong profitability.

The business profile of Coface benefits from its large and diversified franchise in global credit insurance sector, where it is the third-largest player, with an estimated market share of 17%. Fitch assesses Coface's business profile as "favourable" compared with that of other credit insurers. The group has strengthened its business model and risk profile, in line with the objectives of its 2016-19 strategic plan.

Fitch's assessment of Coface's capitalisation is based on the group's moderate nominal net credit exposure-to-equity ratio, as well as the group's Solvency II (S2) ratio. Operating leverage (net premiums written-to-equity) was also strong and stable at 0.5x at end-2018. Coface's S2 ratio was 169% at the same date, above the group's target range of 140%-160%. Coface intends to submit a S2 partial internal model to the regulator for approval. We expect this development, if approved, to largely offset any negative effects from potential changes to the S2 calculation formula in 2020.

Coface's financial leverage ratio (FLR), from which we exclude factoring assets, was stable at 18% at end-2018, a level that Fitch views as supportive of the ratings. Fitch does not expect Coface to raise additional financial debt over the medium term. However, Coface's total financing and commitments (TFC) ratio - a measure of debt and debt-like obligations - was high, albeit stable, at 1.7x. The level of the TFC ratio reflects the funding of the factoring business.

Fitch views Coface's financial performance and earnings as strong, underpinned by underwriting profitability and effective risk management across the cycle. The Fitch-calculated return on equity (ROE) increased to 6.8% in 2018 from 4.7% in 2017. The net combined ratio improved to 79.6% in 2018 (2017: 86.6%), compared with Coface's through-the-cycle target of 83%. This was primarily driven by the loss ratio being down by 6.2 pp, reflecting underwriting discipline and a still supportive operating environment. Modest improvements in the net cost ratio (down by 0.7 pp in 2018) were also a contributing factor, as cost savings exceeded targets in 2018 and were used to finance investments.

Coface's strong financial results in 2018 and 1Q19 show that management actions taken as part of the 'Fit to Win' strategic plan ending in 2019 have enhanced financial performance through stronger risk management and greater operational efficiency.

Fitch views the non-insurance businesses (factoring, surety bonds and information services) as neutral to Coface's ratings. Factoring represents 20% of the S2 solvency capital requirement, 5% of revenues and 35% of total assets. Fitch views Coface's sources of funding for the group's factoring business as robust and diversified.

Rating Sensitivities

The ratings could be downgraded if Coface's S2 ratio falls below 140% or the FLR increases to more than 25%. The ratings could also be downgraded if the combined ratio increases to above 100% or the Fitch-calculated ROE falls below 5%, over a sustained period.

An upgrade is unlikely in the medium term, given Coface's smaller size and lower product diversification than higher-rated insurers.

Additional information is available on www.fitchratings.com

FITCH RATINGS ANALYSTS

Primary Rating Analyst
Manuel Arrive
Director
+33 1 44 29 91 77
Fitch France S.A.S.
60 rue de Monceau
Paris 75008

Secondary Rating Analyst
Willem Loots
Senior Director
+44 20 3530 1808

Committee Chairperson
Harish Gohil
Managing Director
+44 20 3530 1257

MEDIA CONTACTS

Athos Larkou
London
+44 20 3530 1549
athos.larkou@thefitchgroup.com

Applicable Criteria

Insurance Rating Criteria (pub. 11 Jan 2019)
Short-Term Ratings Criteria (pub. 02 May 2019)

Additional Disclosures

Dodd-Frank Rating Information Disclosure Form
Solicitation Status
Endorsement Policy

DISCLAIMER

COPYRIGHT

securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001

Fitch Ratings, Inc. is registered with the U.S. Securities and Exchange Commission as a Nationally Recognized Statistical Rating Organization (the "NRSRO"). While certain of the NRSRO's credit rating subsidiaries are listed on Item 3 of Form NRSRO and as such are authorized to issue credit ratings on behalf of the NRSRO (see https://www.fitchratings.com/site/regulatory), other credit rating subsidiaries are not listed on Form NRSRO (the "non-NRSROs") and therefore credit ratings issued by those subsidiaries are not issued on behalf of the NRSRO. However, non-NRSRO personnel may participate in determining credit ratings issued by or on behalf of the NRSRO.

SOLICITATION STATUS

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.

Endorsement Policy

Fitch's approach to ratings endorsement so that ratings produced outside the EU may be used by regulated entities within the EU for regulatory purposes, pursuant to the terms of the EU Regulation with respect to credit rating agencies, can be found on the EU Regulatory Disclosures page. The endorsement status of all International ratings is provided within the entity summary page for each rated entity and in the transaction detail pages for all structured finance transactions on the Fitch website. These disclosures are updated on a daily basis.