



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

Fitch Ratings - Paris - 10 July 2019:

Fitch Ratings has affirmed Compagnie française d'assurance pour le commerce extérieur'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 Française d'Assurance pour le Commerce Extérieur 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

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Applicable Criteria

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

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