

Rating Action: Moody's takes action on five trade credit insurers

27 March 2020

London, March 27, 2020 -- Moody's Investors Service, ("Moody's") has today affirmed the insurance financial strength (IFS) and debt ratings, where applicable, of five trade credit insurance groups, including Atradius Credito y Caucion S.A. (ACyC, A2 negative) and the other main operating companies of Atradius N.V. (Atradius), Compagnie Francaise d'Assurance pour le Comm. (Coface, A2 negative), Euler Hermes SA (Euler Hermes, Aa3 stable), Clal Credit Insurance (Clal, A3 negative) and BSSCH the Israeli Credit Insurance Company (ICIC, A3 stable). The outlooks for the ACyC and the other Atradius operating entities, Coface and Clal have been changed to negative, from stable. The outlooks for Euler Hermes and ICIC remain stable.

A complete list of the ratings impacted by this action is included at the end of this document.

RATINGS RATIONALE

SECTOR RATIONALE

Moody's has changed the outlooks for the ACyC and the other Atradius operating entities, Coface and Clal to negative because it believes these insurers' credit profiles would be more negatively impacted in a severe stress scenario related to the coronavirus, including prolonged disruption to business and financial markets and higher claims rates than were observed during the 2008/09 financial crisis. While Moody's expects Euler Hermes and ICIC to be similarly impacted by these pressures, they benefit from parental support which will limit the impact on their credit profiles.

The rapid global spread of the coronavirus has led to a deteriorating economic outlook, sharply lower oil prices and broad financial market upheaval, generating an unprecedented credit shock across many sectors worldwide. Small and medium sized enterprises (SMEs), to which the credit insurers have significant exposure, are especially vulnerable in the current environment, with many at risk of insolvency in a prolonged disruption of their business, absent effective government support. We regard the coronavirus outbreak as a social risk under our ESG framework, given the substantial implications for public health and safety.

Through their insurance of trade receivable balances for many sectors in most countries globally, trade credit insurers have significant exposure to the ongoing disruption of business and financial markets. Because of their very high operating leverage (insured exposure relative to capital) trade credit insurers' profitability and capitalisation are sensitive to significant spikes in claims, and the rapid global impact of the coronavirus limits the ability for the insurers' extensive sectoral and geographic diversification to minimize losses. Uncertainty will remain for at least several months as to how long it will take to contain the spread of the virus and how businesses and households will cope with the resulting financial losses.

The rating affirmation reflects Moody's expectation that the insurers' credit profiles will be broadly resilient to the widespread economic and financial markets disruption related to the coronavirus given that these insurers' credit profiles are supported by strong capitalisation levels heading into this crisis along with the short-tail nature of trade credit exposures, which allows the insurers to quickly reduce limits and exposure in response to deteriorating market conditions. In addition, credit insurers had adopted a more conservative underwriting stance during 2019 in response to growing

challenges evident in the global economy, including for example trade tensions and rising stresses in the automotive supply chain, which caused them to be more prepared going into this crisis.

The insurer's well developed risk underwriting practices limit their exposure to weaker entities that have smaller liquidity buffers and therefore are less likely to withstand the disruption to their businesses envisaged in our base stress scenario. However, in a more severe prolonged stress scenario, Moody's expects rising strain on stronger entities, with the effectiveness of government support for businesses, including SMEs, along with the length of the period of disruption to be key factors influencing the extent of losses credit insurers will incur. A number of countries in which the insurers have exposures are implementing measures to support SMEs, which if effective, will moderate the number of insolvencies and therefore losses incurred by these insurers.

Because of their conservatively positioned investment portfolios, Moody's expects the direct impact of financial markets' volatility to credit insurers' balance sheets to be moderate.

COMPANY RATIONALES

Atradius

The outlook for Atradius' main operating entities has been changed to negative to reflect the risk that a more prolonged or severe disruption to business and financial markets could result in higher than expected losses for Atradius and a material weakening of its capital adequacy and profitability.

The A2 IFS ratings of Atradius N.V.'s (Atradius) main operating companies reflects its strong market position as the second largest global credit insurer, historically strong economic capitalisation, underpinned by Atradius' dynamic management of insured exposure and effective underwriting risk monitoring tools, and good underwriting profitability through the-cycle, albeit with an expectation of significant underwriting losses being incurred during 2020 related to the coronavirus. These strengths are partially offset by Atradius' limited diversification beyond credit insurance which increases its susceptibility to economic stresses, and its concentrated exposure to the Spanish economy (Government of Spain, Baa1 stable), especially in terms of contribution to profit (19.1% premiums generated in Iberia during 2019) via Atradius Credito y Cauccion S.A. , the group's main operating company, domiciled in Spain.

Coface

The outlook for Coface has been changed to negative to reflect the risk that a more prolonged or severe disruption to business and financial markets could result in higher than expected losses for Coface and a material weakening of its capital adequacy and profitability.

The A2 IFS rating of Coface SA's (Coface, Baa1 negative) lead insurance entity, Compagnie Francaise d'Assurance pour le Comm. reflects the group's strong position in the global credit insurance industry, historically strong economic capitalisation, underpinned by Coface's dynamic management of insured exposure and effective underwriting risk monitoring tools, and good underwriting profitability through the-cycle, albeit with an expectation of significant underwriting losses being incurred during 2020 related to the coronavirus. These strengths are partially offset by its limited diversification from credit insurance, a cyclical and competitive industry, slightly higher investment risk relative to peers, and a higher proportion of emerging markets exposure relative to peers.

Euler Hermes

The Aa3 IFS rating of Euler Hermes SA has been affirmed, with stable outlook, reflecting the stable outlook of its parent, Allianz SE (Allianz, Aa3 stable) and the expectation of implicit and explicit support from Allianz.

Euler Hermes' Aa3 IFS rating reflects its very strong and leading position in the credit insurance market globally, historically strong economic capitalisation, underpinned by Euler Hermes' dynamic management of insured exposure and effective underwriting risk monitoring tools, and strong underwriting profitability through the-cycle, albeit with an expectation of significant underwriting losses being incurred during 2020 related to the coronavirus. These strengths are partially offset by the company's limited diversification beyond credit insurance, an inherently cyclical and competitive industry with meaningful exposure to country-specific risks and the global economic environment, and its strong growth in the surety and bonding sector which is a longer term exposure that reduces its overall underwriting flexibility. Euler Hermes' rating benefits from implicit and explicit support provided by its parent.

Clal Credit Insurance

The outlook for Clal has been changed to negative to reflect the risk that a more prolonged and severe disruption to business and financial markets could result in higher than expected losses for Clal and a material weakening of its capital adequacy and profitability. In addition, Moody's considers that the current financial markets volatility could impact the capital adequacy of Clal Insurance Company – the parent of Clal Credit Insurance. Should this occur, without any offsetting measures, this could affect the ability of the parent to support Clal.

The A3 IFS rating of Clal reflects its strong market position in Israel, very good underwriting flexibility, strong capitalisation and good underwriting profitability through the-cycle, albeit with an expectation of significant underwriting losses being incurred during 2020 related to the coronavirus. In addition, Clal benefits from affiliation with the Atradius group (A2 for IFSRs of insurance operating entities, negative outlook), the second largest global credit insurer, which holds a minority stake in Clal and provides significant reinsurance capacity. These strengths are partially offset by Clal's small market share relative to its global credit insurance peers and concentrated exposure to the Israeli market, which elevates Clal's susceptibility to the risk of significant financial distress in Israel. Clal is majority owned by Clal Insurance Company – one of the largest multi-line insurance group's in Israel.

BSSCH the Israeli Credit Insurance Company (ICIC)

The A3 IFS rating of ICIC has been affirmed, with stable outlook, reflecting the stable outlook of Euler Hermes and the aforementioned implicit and explicit support from its joint-parent companies Euler Hermes and Harel Insurance Investments and Financial Services Ltd. (Harel).

The A3 IFS rating of ICIC reflects its standalone credit profile and one notch of support due to implicit and explicit support from its joint-parent companies, Euler Hermes and Harel. Explicit support is evidenced by ICIC's cession of a significant (50%) quota-share to Euler Hermes and a capital maintenance agreement in favour of ICIC from the parent entities. In addition, ICIC's operations and marketing activities are closely integrated with both Euler Hermes and Harel, including ICIC's integration into Euler Hermes' buyer risk and underwriting platform, adding to our expectation of support from the parent entities, if required.

ICIC's standalone credit profile reflects its strong market position in Israel, strong capitalisation and good underwriting profitability through the-cycle, albeit with an expectation of significant underwriting losses being incurred during 2020 related to the coronavirus. In addition, ICIC benefits from significant global diversification of its credit insurance exposures and very good underwriting

flexibility. These strengths are partially offset by ICIC's modest size relative to its global credit insurance peers, predominant focus on the Israeli market and concentrated exposure to the Israeli corporate sector through its domestic credit insurance business and investment portfolio.

The outlook for ICIC is stable, reflecting the stable outlook of Euler Hermes and the aforementioned implicit and explicit support from both Euler Hermes and Harel.

RATING DRIVERS

In Moody's view, the fortunes of the trade credit insurers tend to be similarly impacted by global economic shocks, although differentiated outcomes could emerge as the impact of the coronavirus unfolds. As such, Moody's stated that the unsupported ratings could face further downward pressure in the event of claims trending significantly higher than was observed during the 2008/09 financial crisis, which is one key benchmark against which the credit insurers capital adequacy has been measured. Similarly, ratings could be weakened by indications that the economic disruption will be prolonged into 2020, or in the event of government support for SMEs not being effective in decreasing the level of insolvencies.

While rating outlooks are typically resolved within 12-18 months, Moody's noted that the risks for the credit insurers are weighted towards the downside, and that any indication of higher than expected claims development over the next three to six months would likely result in negative action sooner than 12 months. Conversely, a longer time period will be applied to any stabilisation of the ratings, to allow more time to assess the effect of this crisis on the insurers' credit profiles.

In addition, the following rating drivers apply to individual companies:

Atradius

Given the negative outlook, there is limited upward pressure on Atradius' ratings over the next 12 to 18 months. The following could lead to a downgrade in Atradius' ratings: (i) material deterioration in underwriting profitability, with a 5-year combined ratio consistently above 95% through-the-cycle, (ii) material decline in capital adequacy, including Solvency II capital coverage decreasing below 150% with limited ability to improve capitalisation in the near term, (iii) financial leverage consistently exceeding 30%, (iv) significant erosion of the company's market position and franchise, or (v) meaningful weakening in the credit profile of its parent, Grupo Catalana Occidente (GCO) or the Spanish sovereign.

Coface

Given the negative outlook, there is limited upward pressure on Cofaces' ratings over the next 12 to 18 months. The following could lead to a downgrade in Coface's ratings: (i) material deterioration in underwriting profitability, with a 5-year combined ratio consistently above 95% through-the-cycle, (ii) material decline in capital adequacy, including Solvency II capital coverage decreasing below 150% with limited ability to improve capitalisation in the near term; (iii) financial leverage consistently exceeding 30% or a significant increase in the company's operational debt; (iv) significant erosion of the company's market position and franchise, (v) higher than expected losses on its investment portfolio.

Euler Hermes

Given that Euler Hermes' Aa3 IFS rating benefits from support provided by Allianz, we do not believe there is currently upside to Euler Hermes' rating, potentially aside from an upgrade in the rating of its parent. Similarly, due to the 100% ownership by Allianz, the key driver of negative pressure

on Euler Hermes' IFS rating would be a downgrade of Allianz's ratings, or a change in the nature and extent of support expected from Allianz. That notwithstanding, the following factors could lead to negative pressure on EH's standalone credit profile: (i) material deterioration of earnings and operating performance resulting in a combined ratio in excess of 90%, over a sustained period of time, (ii) a material decline in capital adequacy, including Solvency II capital coverage decreasing below 150% with limited ability to improve capitalisation in the near term, or (iii) significant erosion of the company's market position and franchise.

Clal Credit Insurance

Given the negative outlook, there is limited upward pressure on Clal's ratings over the next 12 to 18 months. The following could lead to a downgrade of Clal's rating: (i) significant reduction in capitalization over a one year period; (ii) a material decline in profitability with the combined ratio consistently above 90%; (iii) weakening of Clal's market position in the Israeli credit insurance market; (iv) material changes to the level of protection from Clal's reinsurance program, including reduction in the number of reinstatements available on the excess-of-loss protection; and (v) indications of diminished willingness or a deterioration in the ability of Clal Insurance to provide support to Clal.

BSSCH the Israeli Credit Insurance Company (ICIC)

ICIC's rating benefits from support from its owners, Euler Hermes and Harel, and therefore its ratings could be downgraded in the event of indications of diminished willingness or ability of Euler Hermes or Harel to provide support to ICIC, including a downgrade of Euler Hermes' IFS rating or evidence of financial weakness at Harel. In addition, the following factors impacting ICIC's standalone credit assessment could lead to a downgrade: (i) significant reduction in capitalization over a one year period, with Net Underwriting Leverage above 1x, or a Solvency II ratio below 200%, (ii) a material decline in profitability with the combined ratio consistently above 95%, (iii) weakening of ICIC's market position such that it is consistently below 35% of the Israeli credit insurance market, and (iv) material changes to the level of protection from ICIC's reinsurance program.

LIST OF AFFECTED RATINGS

Issuer: Euler Hermes SA

Affirmations:

....Insurance Financial Strength Rating, Affirmed Aa3

....ST Insurance Financial Strength Rating, Affirmed P-1

Outlook Actions:

....Outlook remains Stable

Issuer: Atradius Finance B.V.

Affirmation:

....Backed Subordinate Regular Bond/Debenture, affirmed Baa2(hyb)

..Outlook Action:

....Outlook changed to Negative from Stable

Issuer: Atradius Credito y Caucion S.A.

Affirmations:

....Insurance Financial Strength Rating, affirmed A2

....ST Insurance Financial Strength Rating, affirmed P-1

Outlook Action:

....Outlook changed to Negative from Stable

Issuer: Atradius Reinsurance DAC

Affirmation:

....Insurance Financial Strength Rating, affirmed A2

Outlook Action:

....Outlook changed to Negative from Stable

Issuer: Atradius Trade Credit Insurance Inc.

Affirmation:

....Insurance Financial Strength Rating, affirmed A2

Outlook Action:

....Outlook changed to Negative from Stable

Issuer: Coface SA

Affirmations:

....Long-term Issuer Rating, affirmed Baa1

....Backed Subordinate Regular Bond/Debenture, affirmed Baa1(hyb)

....Commercial Paper, affirmed P-2

Outlook Action:

....Outlook changed to Negative from Stable

Issuer: Compagnie Francaise d'Assurance pour le Comm.

Affirmations:

....Insurance Financial Strength Rating, affirmed A2

....ST Insurance Financial Strength Rating, affirmed P-1

Outlook Action:

....Outlook changed to Negative from Stable

Issuer: BSSCH the Israeli Credit Insurance Company Ltd.

Affirmations:

....Insurance Financial Strength Ratings, affirmed A3

Outlook Action:

....Outlook remains Stable

Issuer: Clal Credit Insurance

Affirmations:

....Insurance Financial Strength Ratings, affirmed A3

Outlook Action:

....Outlook changed to Negative from Stable

The principal methodology used in these ratings was Trade Credit Insurers Methodology published in November 2019. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

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Brandan Holmes
VP-Sr Credit Officer
Financial Institutions Group
Moody's Investors Service Ltd.
One Canada Square

Canary Wharf
London
United Kingdom
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

Simon James Robin Ainsworth
Associate Managing Director
Financial Institutions Group
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

Releasing Office:
Moody's Investors Service Ltd.
One Canada Square
Canary Wharf
London, E14 5FA
United Kingdom
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

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