



## RATING ACTION COMMENTARY

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

Thu 09 Dec, 2021 - 12:08 ET

Fitch Ratings - Paris - 09 Dec 2021: Fitch has affirmed Coface SA and its operating subsidiaries (together Coface). The Outlooks are Stable. A full list of rating actions is detailed below.

## KEY RATING DRIVERS

The rating action reflects Coface's very strong company profile and capitalisation, as well as a strong profitability through the cycle. Coface's earnings were only moderately affected by the pandemic-related recession in 2020 and have recovered strongly in 2021.

We rank Coface's business profile as 'Favourable' compared with other global trade credit insurers' due to its very strong, well-established and diversified franchise in the global trade-credit insurance sector, where the group is the third-largest insurer. During the pandemic in 2020, Coface was able to actively manage its insured risk exposure while increasing new business and client retention rates.

Fitch views Coface's capitalisation as very strong and stable. Solvency II (S2) ratio was very strong at 191% as of end-June 2021 (186% excluding government schemes; 205% as of end-2020), above the group's target of 155%-175%. Net leverage (net premiums written + net insurance liability to equity), which we view as important capital adequacy ratios for trade-credit insurers, averaged 1.2x over five years and fell to 1x in 2021, due to substantial premium cessions to governments.

Coface's financial leverage ratio (FLR), from which we exclude factoring assets, was stable at 17% at end-2020 (2019: 18%), which is also supportive of the 'AA' rating category.

Fitch views Coface's financial performance as strong across the economic cycle, underpinned by underwriting profitability, effective risk management and reinsurance.

We expect Coface to report exceptionally high earnings in 2021, driven by strong revenue growth and low loss activity. The group's combined ratio (CR) for 9M21 was at 56.1% and turnover was up 8.9% yoy, driven by rising volumes, strong client retention and positive price effect until 3Q21. Net profit was EUR191 million, reduced by the cost of public reinsurance schemes (EUR57 million pre-tax for 9M21).

Earnings remained resilient in 2020, as reflected in a slight deterioration in the group's CR to 79.8% (84.5% excluding government schemes; 2019: 77.7%). Active management of insured risk exposure (10% reduction in gross exposure in 2020) and substantial government-support schemes (covering 64% of the portfolio at end-2020) contributed to credit-insurance loss mitigation, in a broadly benign claims environment. The Fitch-calculated return on equity (ROE) dropped to 4.2% in 2020 from 7.9% in 2019.

## **RATING SENSITIVITIES**

Factors that could, individually or collectively, lead to negative rating action / downgrade:

-- A CR above 90% on a sustained basis

-- S2 ratio falling below 160%

-- Deterioration in business profile, as reflected in a substantially weaker competitive position and / or higher business risks

Factors that could, individually or collectively, lead to positive rating action / upgrade:

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

## **BEST/WORST CASE RATING SCENARIO**

International scale credit ratings of Financial Institutions and Covered Bond issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of

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## REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

## ESG CONSIDERATIONS

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit [www.fitchratings.com/esg](http://www.fitchratings.com/esg)

## RATING ACTIONS

| ENTITY / DEBT ◆    | RATING ◆ |                          | PRIOR ◆                  |
|--------------------|----------|--------------------------|--------------------------|
| Coface Finanz GmbH | LT IDR   | A+ Rating Outlook Stable | A+ Rating Outlook Stable |
|                    | Affirmed |                          |                          |
| COFACE SA          | LT IDR   | A+ Rating Outlook Stable | A+ Rating Outlook Stable |
|                    | Affirmed |                          |                          |
|                    | ST IDR   | F1 Affirmed              | F1                       |
| subordinated       | LT       | A- Affirmed              | A-                       |

|   |                |     |                           |                           |
|---|----------------|-----|---------------------------|---------------------------|
| senior unsecured  | ST             | F1  | Affirmed                  | F1                        |
| Coface North America Insurance Company (CNAIC)                | Ins Fin Str    |     | AA- Rating Outlook Stable | AA- Rating Outlook Stable |
|   |                |     | Affirmed                  |                           |
| Compagnie Francaise d'Assurance pour le Commerce Exterieur SA | LT IDR         |     | A+ Rating Outlook Stable  | A+ Rating Outlook Stable  |
|   |                |     | Affirmed                  |                           |
|   | Ins Fin Str    |     | AA- Rating Outlook Stable | AA- Rating Outlook Stable |
|   |                |     | Affirmed                  |                           |
|   | Ins Fin Str ST | F1+ | Affirmed                  | F1+                       |

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**APPLICABLE CRITERIA**

[Insurance Rating Criteria \(pub. 26 Nov 2021\) \(including rating assumption sensitivity\)](#)

**APPLICABLE MODELS**

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Prism Factor-Based Capital Model, v1.7.2 (1)

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COFACE SA

EU Issued, UK Endorsed

Compagnie Francaise d'Assurance pour le Commerce Exterieur SA

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