



## RATING ACTION COMMENTARY

# Fitch Affirms Coface at IFS 'AA-'; off RWN

Tue 20 Apr, 2021 - 11:34 ET

Fitch Ratings - Paris - 20 Apr 2021: Fitch has affirmed all the ratings of Coface SA and its operating subsidiaries (together Coface) and removed them from Rating Watch Negative (RWN). The Outlooks are Stable.

The Insurer Financial Strength (IFS) Ratings of Compagnie française d'assurance pour le commerce extérieur's (Compagnie) and Coface North America Insurance Company were affirmed at 'AA-' and removed from RWN. The issuers are major insurance operating entities of the group.

Fitch has also affirmed Compagnie's, Coface Finanz's and Coface SA's Long-Term Issuer Default Ratings (IDR) at 'A+' and removed them from RWN.

A full list of rating actions is detailed below.

## KEY RATING DRIVERS

The rating action reflects Fitch's assessment that Coface's credit profile will remain broadly unchanged. This is based on our expectation that Coface's earnings will be strong in 2021, supported by low claims activity. The pandemic-related recession had only a moderate adverse effect on Coface's earnings in 2020, reducing near-term risks to the ratings.

The Stable Outlooks indicate our expectations that Coface will be able to withstand an increase in corporate insolvencies, as government support is scaled back in the next 12-24 months as the global economy recovers.

Coface demonstrated resilient financial performance in 2020. The net combined ratio (CR) deteriorated slightly to 79.8% in 2020 (84.5% excluding government schemes; 2019: 77.7%). The Fitch-calculated return on equity (ROE) dropped to 4.2% in 2020 from 7.9% in 2019. Active management of insured risk exposure (10% reduction in gross exposure in 2020) and effective government-support schemes (covering 64% of the portfolio at end-2020) contributed to credit-insurance loss mitigation in a fairly benign claims environment.

For 2021 and 2022, we forecast a CR below 100% and an ROE above 5%, reflecting our expectation for low claims activity in 1H21. We expect a modest increase in claims experience after end-1H21, as governments may scale back their support to the economy in general and to trade credit insurers in particular, as global macro-economic conditions recover.

Fitch expects that improvement in pricing, strong client retention and rising volumes will be supportive of Coface's revenue growth over the next 12-24 months. We believe the negative effect that government schemes had on net premiums and earnings in 2020 will still take its toll in 1H21, before gradually receding. Fitch views Coface's financial performance as strong across the cycle, underpinned by underwriting profitability and effective risk management.

Fitch views Coface's capitalisation, which was unchanged through the pandemic, as strong. Coface's Solvency II ratio was very strong at 205% as of end-2020 (191% excluding government schemes, 190% as of end-2019), above the company's target of 155%-175%. Operating leverage (net premiums written-to-equity) was very low at 0.4x at end-2020 (five-year average of 0.5x).

The 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 rating. The total financing-and-commitments (TFC) ratio was high, albeit stable, at 1.4x, reflecting the funding of the factoring business.

We believe that Coface's business profile has remained stable through the crisis, benefitting from its strong franchise in the global trade credit-insurance sector, where it is the third-largest insurer. The company was able to reduce and rebalance its insured risk exposure, while increasing new business and client retention rates to record levels. Fitch

uses a bespoke Industry Profile and Operating Environment (IPOE) framework for trade-credit insurers when assessing Coface's business profile.

## **RATING SENSITIVITIES**

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

- A CR above 100% on a sustained basis.
- Fitch-calculated ROE below 5% on a sustained basis.
- Solvency II ratio falling below 160%.
- Fitch-calculated FLR rising above 25% on a sustained basis.
- A less favourable view by Fitch of the business risk profiles of the global trade-credit insurance industry, and Coface, in particular.

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 rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit <https://www.fitchratings.com/site/re/10111579>

## 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	Affirmed	A+ Rating Watch Negative
COFACE SA	LT IDR	A+ Rating Outlook Stable	Affirmed	A+ Rating Watch Negative
	ST IDR	F1	Affirmed	F1
● subordinated	LT	A-	Affirmed	A- Rating Watch Negative
● senior unsecured	ST	F1	Affirmed	F1

[VIEW ADDITIONAL RATING DETAILS](#)

## FITCH RATINGS ANALYSTS

**Manuel Arrive, CFA**

Director

Primary Rating Analyst  
+33 1 44 29 91 77  
Fitch Ratings Ireland Limited  
60 rue de Monceau Paris 75008

**Alberto Messina**

Director  
Secondary Rating Analyst  
+49 69 768076 234

**Harish Gohil, FIA**

Managing Director  
Committee Chairperson  
+44 20 3530 1257

**MEDIA CONTACTS****Athos Larkou**

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

Additional information is available on [www.fitchratings.com](http://www.fitchratings.com)

**APPLICABLE CRITERIA**

[Insurance Rating Criteria \(pub. 15 Apr 2021\) \(including rating assumption sensitivity\)](#)

**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)

**ADDITIONAL DISCLOSURES**

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## ENDORSEMENT STATUS

Coface Finanz GmbH	EU Issued, UK Endorsed
Coface North America Insurance Company (CNAIC)	EU Issued, UK Endorsed
COFACE SA	EU Issued, UK Endorsed
Compagnie Francaise d'Assurance pour le Commerce Exterieur SA	EU Issued, UK Endorsed

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